

# MUHENKAMP Memorandum

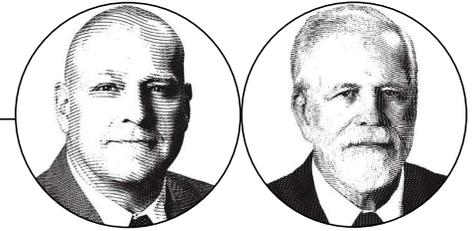
Issue 150

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## QUARTERLY LETTER

By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder



Fellow Investors,

It's been a quiet quarter for economic news. Inflation as measured by the Consumer Price Index (CPI) was 3.2% on February 29th, up from January's 3.1% and not far from the recent low in June '23 of 3.0%. Real (inflation adjusted) GDP growth was 2.5% for the 4th Quarter of 2023 with the Atlanta Fed's "GDP Now" calculation showing an estimated current GDP growth of 2.8% on April 1, 2024. Based on those measurements of inflation and economic health, the Federal Reserve decided at their March meeting to leave the Federal Reserve Target Rate unchanged in the range of 5.25 – 5.5% and to continue shrinking their balance sheet as they have been since the summer of '22. Short-term interest rates remain above long-term interest rates (the yield curve is inverted) and we expect this will revert to a normal, positively sloped yield curve at some point. We don't know if this will happen because the Federal Reserve cuts short-term rates (they keep hinting that they will this year) or because long-term interest rates rise, or a combination of the two.

The markets in the first quarter, however, have not been so quiet. The S&P 500 Total Return index is up about 10% from January 1st through the end of March. The best performing stocks were technology companies believed to be beneficiaries of developments in artificial intelligence followed by companies that will benefit

from increased infrastructure spending. Long duration bonds have sold off a little this year with the S&P U.S. Treasury Bond 20+ Year Index down 4.01% first quarter. The spot price of gold is at all-time highs at the end of March.

We think it remains possible that we see a recession in the near future. An inverted yield curve has historically been a reliable predictor of recessions and we are unwilling to say, "this time is different." Commercial real estate remains troubled with low occupancy rates and declining asset values, which puts pressure on banks and other organizations that lent money against those buildings. That's a significant drag on the economy and tends to be deflationary. Conversely, it remains possible that we are in the midst of an inflationary boom driven by government and corporate spending—the opposite of a recessionary bust. Our portfolio should do well under either scenario: some of our holdings we expect will do best in an inflationary environment (energy) while others will shine if we enter a recession (healthcare and cash). As we get more clarity on our economic future we will adjust accordingly. One area where we put a little cash to work this quarter was in our holdings of companies that have positive exposure to the price of gold. Even though gold has been going up, the price of mining and royalty companies has not. We added to our holdings of gold miners and royalty companies expecting that their share prices will eventually move with the price of gold.

As always, please get in touch with us if you have any questions, we'd love to hear from you.

With our best wishes for your continued success and good health. 🏡

**CPI** - The Consumer Price Index ("CPI") measures the average change in prices over time that consumers pay for a basket of goods and services, commonly known as inflation. One cannot invest directly in an index.

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

**S&P 500® Index** – The 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. One cannot invest directly in an index.

**S&P U.S. Treasury Bond 20+ Year Index** is designed to measure the performance of U.S. Treasury bonds maturing in 20 or more years. One cannot invest directly in an index.

The comments made in this letter are opinions and are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

## VIEW FROM THE FRONT OFFICE: MAXIMS

By Tony Muhlenkamp, President



In July 1991, Ron published his list of “Basic Financial Maxims I Want My Kids to Know”. In the last few months I have referred back to some of those Maxims several times:

- 1 Any agreement has two parties; the other person will be working for himself. Figure out whether he is working for or against you. Always check one level deeper and follow up.
- 2 Financial products are simply agreements written on paper. Although written in English, they are written by lawyers and designed so you won't read them. Read them anyway, and read them again, and again, until you understand them.
- 3 The assumptions that you make consciously won't hurt you. The assumptions you take for granted (what “everybody knows”) will kill you. Always check the assumption behind the assumption you make.
- 4 There are no guarantees, there are only guarantors. The phrase “It's guaranteed” requires the response: “By whom?”
- 5 If it's complicated, it is probably a bad deal.

6 If you don't understand it, it is a bad deal. Don't buy any product or service from someone who can't or won't explain it to you in terms you understand.

In one case a client purchased an annuity and asked me for a review. When you buy an annuity you do not receive the actual contract/agreement until AFTER you give the insurance company a check. You then have 30 days to review the documents and change your mind. With three days until the deadline my client asked me to review and explain to him the annuity contract (where I found the term “guaranteed” frequently used). Which I did.

The other instance involved purchasing royalty units in a private startup company. He didn't actually ask me to look at the subscription agreement and disclosure statement, but I was VERY curious, so he let me look at what they had sent him. I had not come across royalty units before and had to read and study and research that topic before I could even delve into this particular offering. They are a lot more

complicated than equities OR bonds and I had to ask my brother Jeff for help. We didn't have any financial information so we made some assumptions in order to produce some idea of what our client could expect.

In both cases I don't think the purchases will hurt them. I just don't think the products will deliver what they expect. Which is ok, LOTS of things don't deliver on expectations and it's often because our expectations are too high. Using our Maxims to guide decision making helps to set realistic expectations and make informed decisions. Try them and let us know what you think.

Please let us know if we can help you evaluate financial products that you are considering for purchase. We have some experience with it. 📌

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### ANNOUNCEMENTS

#### 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](http://www.muhlenkamp.com) or call us at (877) 935-5520.

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## LETTER TO MY DAUGHTERS: WHAT GRANDPA TAUGHT ME

by Tony Muhlenkamp, President - Muhlenkamp & Company, Inc.

Girls, you know how I can get sentimental about family sometimes. This is one of those times. As you continue to make your way in the world, I think about how much Grandpa has tried to teach me over the years, and how important it is to me to pass those ideas along to you.

Here are my "Top 10":

**1** 90% of life is mental. This includes work, school, sports, happiness, everything. Your body, heart and soul will follow your mind. Decide you are a hard worker, decide you are happy, and you will find that you are IN FACT those things.

**2** Self-esteem comes from being useful to someone else. Self-esteem is earned not by being talented and gifted and smart and funny; self-esteem is earned by putting those talents to work in ways that other people find useful. And a very good way of knowing they find it useful is they PAY you to do it. Money is not the root of all evil; love of money is. Money is actually a great way for people to communicate to you how useful and valuable you are to them.

**3** Be willing to work for less than you are worth provided you are learning. The caveat is to be sure you are a profit center—meaning you have to produce more for the person that is paying you than you cost him.

**4** Think. Take your time, think about what you're doing, and pay attention to what you are doing so you can learn from it. EVERY TASK can teach you something if you are paying attention.

**5** You can always outwork the other guy. ALWAYS. It goes back to 90% of everything is mental.

**6** Physical labor can be good for the mind, heart, and soul. It's hard on the body, which is why our family loves the internal combustion engine and all the machines and tools it powers.

**7** Don't wait for the perfect job, or for your "bliss." Find work that is interesting and useful, work at it, master it, and be willing to do something else that is useful and interesting. You're going to live a long time and may have several professions. Don't wait, get started right away.

**8** Listen to your Mother. If I have to explain this one to you, then I have failed miserably as your father.

**9** Read. Reading can help you learn from other people's mistakes, keep from repeating them, or at least take solace in the fact that you aren't the only one to screw this up. Read everything and anything you can get your hands on. Take notes, bend pages, highlight passages (unless it's a library book, don't do that to library books).

**10** I love you. This was the hardest lesson for me to learn, but the easiest one for me to pass on. I love you girls, more than you can know until you have children of your own.

Let me know if I can help. I love you.

Dad 🏠

*The comments made in this article are opinions and are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.*



**MUHLENKAMP  
& COMPANY INC.**

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## **MUHLENKAMP**Memorandum

Inside this issue:

- Quarterly Letter
- View from the Front Office: Maxims
- Letter to My Daughters: What Grandpa Taught Me
- Announcements

# This is Issue #150 of the Muhlenkamp Memorandum!

That's a lot of quarterly letters, articles on the economy and investments, shared outlooks, charts, announcements, and words of wisdom.

*It's published quarterly. It's free and it's available in print, via email, and on our website. If you would like to change the method of receipt, or have a friend or family member who would like to start receiving the next issue of our Memorandum, call (877)935-5520 to make the request.*

# MUHLENKAMP SMA ALL-CAP VALUE

For the period ended 3/31/2024

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)

	Year to Date	One Year	Annualized			
			Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	6.49%	18.49%	11.85%	13.53%	7.11%	10.24%
S&P 500 Total Return*	10.56%	29.88%	14.49%	15.04%	12.96%	15.63%
Consumer Price Index**	1.17%	3.15%	5.67%	4.19%	2.83%	2.57%

\* 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 2024 – 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
Broadcom Inc	Semiconductors & Semiconductor Equipment	4.71%
McKesson Corporation	Health Care Providers & Services	4.15%
Schlumberger NV	Energy Equipment & Services	4.04%
EQT Corporation	Oil, Gas, & Consumable Fuels	3.91%
Kirby Corp	Marine	3.80%
Occidental Petroleum Corp	Oil, Gas, & Consumable Fuels	3.76%
NMI Holdings Inc	Thriffs and Mortgage Finance	3.50%
Berkshire Hathaway Inc Class B	Diversified Financial Services	3.49%
BGC Partners Inc	Capital Markets	3.43%
Rush Enterprises Inc	Trading Companies & Distributions	3.29%
Recurrent MLP & Infrastructure Fund I	Mutual Funds	3.25%
Microsoft Corp	Software	3.20%
SPDR Gold Shares	Exchange Traded Funds	3.08%
Mastec Inc	Construction & Engineering	3.00%
Dow Inc	Chemicals	2.98%
UnitedHealth Group Inc	Health Care Providers & Services	2.88%
United Rentals Inc	Trading Companies & Distributions	2.87%
PulteGroup Inc	Household Durables	2.75%
Tegna Inc	Media	2.63%
Microchip Technology Inc	Semiconductors & Semiconductor Equipment	2.60%

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.

## INVESTMENT ADVISER

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## SMA FACTS

Average Number of Equity Holdings 29  
Cash & Cash Equivalents 17.28%

*SMA Facts are presented as supplemental information.*

## SMA INFORMATION

The inception date for the All-Cap Value Composite is December 31, 1993. The All-Cap Value Composite was created in December 2003. The Composite includes fee-paying accounts over \$100,000, full discretion, under management for first full month 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.

**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**
2023	370	62	66	13.79	12.98	26.29	13.01	17.54	2.50
2022	396	54	57	2.82	2.06	(18.11)	19.51	21.16	0.82
2021	317	48	48	28.05	27.11	28.71	18.28	17.41	1.67
2020	265	38	45	14.06	13.14	18.40	18.63	18.79	1.38
2019	253	34	48	14.70	13.78	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

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, 2023 by ACA Performance Services. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The All-Cap Value Composite has had a performance examination for the periods December 31, 2006 through June 30, 2023. The verification and performance examination reports are available upon request.

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Muhlenkamp is an independent registered investment advisory firm registered with the Securities and Exchange Commission. The firm maintains a complete list of composite descriptions and pooled funds, which 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 Depository

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 investments, calculating performance, and preparing GIPS Reports are available upon request.

\* **Three-Year Annualized Standard Deviation** is a measure of volatility, calculated by taking the standard deviation of 36 monthly returns, net of fees, 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, net of fees, for all accounts which were in the Composite for the entire year.

\*\*\* **American Depository 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.