MuhlenkampMemorandum

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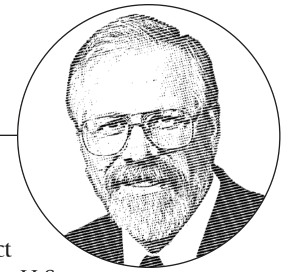
Quarterly Letter

By Ron Muhlenkamp



Some of the things we've been talking/warning you about in recent years came to fruition in 2013. Specifically, medium- and long-term interest rates rose and commodity prices declined.

While the U.S. Federal Reserve (Fed) continues to hold short-term interest rates near zero, rates in the intermediate to longer term, (5-30 year) increased substantially during the year, driving bond prices down. Ten-Year Treasuries now yield 3% and 30-Year Treasuries now yield 4 percent.[1] We do think most of the damage to bond prices has now been done, at least unless and until inflation picks up (which is a goal of the Fed).

As the Fed has held interest rates below economic levels, many investors have sought (and demanded) other sources of "income" from their investments. In *Muhlenkamp Memorandum #106*, we warned you about "creative sources of yield" that Wall Street was—and is—marketing in response to these demands. Some of these products confuse payout (of capital) with yield (on capital). Our warning remains current: generally speaking, yield securities did poorly in 2013, in concert with bonds.

The increase in U.S. interest rates, along with weak commodity prices and other factors, also limited gains in emerging markets, making it tough to make money there, as well. While we had not specifically warned you about this risk, we avoided the area to your (and our) benefit.

Employers continue to be squeezed by taxes, regulations, and healthcare costs; hence, potential employees continue to have trouble getting hired. Retirees and pension plans continued to be squeezed by below-normal interest rates; (refer to *The Big Squeeze*, available on our website).

Europe has not fixed their fundamental problems (although the passage of time helps dissipate the fears).

China continues to try to transition from a capital-driven to a consumer-driven economy, but it's taking longer than planned. (It always does.) The China transition helps our conviction that the commodity cycle peaked a year ago.

So where does that leave us? We continue to expect slow growth in the U.S. economy, but good values are getting harder to find. We do think that long-term trends remain positive in select financials, natural gas-based energy, biotech, and some areas of U.S. manufacturing (largely based on natural gas prices). We are investing your money (and ours) accordingly.

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.

[1] *As of January 6, 2014, the 10-Year Treasury yield was 2.98%; the 30-Year Treasury yield was 3.90%. Source: www.treasury.gov.*

Muhlenkamp & Company, Inc.
Intelligent Investment Management

The "FRIDAY FOCUS" on Retirement

by Susen Friday, AIF® Client Service Regional Manager

Long-time participant in the DCIO(Defined Contribution Investment Only) market, former secretary and active member of the Women in Pensions Network(WIPN), member of the American Society of Pension Professionals and Actuaries(ASPPA) and former plan administrator, Susen also holds an Accredited Investment Fiduciary (AIF) designation.

Throughout 2013, Susen's expertise and experience in the retirement field is being showcased in the Muhlenkamp Memorandum, referred to as the **"FRIDAY FOCUS" on Retirement**.

Past articles include:
'Memorandum #105: *History of Pensions*
'Memorandum #106: *Pension Plans—Types and Characteristics*
'Memorandum #107: *A Primer on IRAs*
'Memorandum #108: *Participant and Sponsor Challenges*

Planning for a Successful Retirement
Past articles have focused on the structure and history of the various vehicles that are available for saving for retirement. There is one other avenue which needs no elaboration: *If you have exceeded all of the contribution limits on plans and IRAs, simply earmark some of your taxable accounts to be used during retirement.*

This article tackles a more personal subject: "Planning for Successful Retirement."

"How do you see yourself in retirement?" is a question similar to "What do you want to be when you grow up?" In essence, retirement is like a new beginning, so the question must be answered. Everyone has different dreams. Some want to travel, move to a warmer climate, volunteer, start a small business, spend time with grandchildren, or just do all of the little things they haven't been able to get around to doing.

So how will you know when you're ready to take that big step?

First, you will need to determine your current financial status, as well as estimate your available funds and expenses going forward. After you have gathered and organized this information, you must clarify if you have the resources to achieve your dream. Play with it and create different scenarios! What happens when you assume different rates of return, inflation, and spending? Establish how those factors affect the affordability of your dream and make adjustments accordingly. Don't put your worksheets away, however; you must update your status annually to assess if you are on track. (If you have any questions about this process, we will be happy to work with you.)

Once you have your plan in place, share it with your family so that they can be supportive in your decisions and be aware of your desires throughout your retirement.

Social Security
When to take Social Security benefits is a critical decision. There is not one age that works for every individual or couple. Couples, particularly, need to decide which spouse will claim benefits: when and how? This choice alone can mean a difference of several hundred dollars per month.

The first step is to visit www.socialsecurity.gov and see what your monthly benefits are estimated to be at your current age, your official retirement age, and at the age of 70.

Some of the major determinants include:
- Marital status;
- On which spouse's income the monthly payment will be based;
- Whether the individual is unemployed or continuing to work;
- Family longevity;
- Current health; and
- Monthly expenses.

Because every situation is unique, there is no single strategy that applies across the board.

That said, help is available. There are several websites that provide calculators where you can enter different scenarios and they will estimate monthly benefits under each scenario. Many websites charge a fee, but some such as AARP (http://www.aarp.org/work/social-security/social-security-benefits-calculator/?intcmp=FTR-LINKS) and T Rowe Price (http://individual.troweprice.com/public/Retail/Retirement/Social-Security-Tool) are free.

In addition, *Social Security for Dummies* is an easy-to-read guide, not only for deciding when to take your Social Security Benefits, but also in dealing with disability and death of a spouse, among other topics. I recommend it as a great reference book.

Medicare
Medicare presents another decision-tree to navigate.

If you are already receiving Social Security or railroad retirement benefits, you will automatically be enrolled in Medicare Parts A and B at the age of 65. If not, you will have to enroll yourself at age 65.

Your initial enrollment period lasts 6 months; it stretches from three months before the 65th birthday, to three months after. Everyone enrolls in Part A (hospital care), for which there is not a charge. Enrollment in Part B (medical costs), however, is dependant on many different circumstances and currently carries a premium of $105 per month. If your timing and circumstances do not fit the requirements, you can end up with a penalty that does not go away.

Other factors that play a part in how and when you can enroll in Medicare include:
1. Employment and the number of employees participating in an employer provided plan.
2. Whether or not to enroll in Part D (prescription drug program).
3. Do I need an alternate (Advantage Plan) or supplemental plan (Medigap)?

As with Social Security, help is available; both the Medicare (www.medicare.gov) and AARP (www.aarp.org) websites offer guidance. Another great resource is Medicare for Dummies by Patricia Barry.

Long-Term Care
Although we are living longer, many are not able to do it independently. Therefore, even more planning is required. What are the options?

Medicare covers hospital stays in blocks of 60 days, including meeting the deductible. If you remain out of the hospital for 60 consecutive days or more, a new 60-day benefit period will begin. If you stay in the hospital for up to 90 days, you will be charged a co-pay. Anything over a 90-day stay in the hospital is the patient's responsibility. If a skilled nursing facility is needed, Medicare will not pay anything on days 1-20. For days 21-100, a co-pay will be charged; over 100 days… you are on your own.

Medicaid is a joint venture of state and the federal government. One of its functions is to provide long-term care for low-income seniors, among others. Each state has its own eligibility requirements based on age, income, savings, and citizenship. Navigating the financial requirements can be tricky; for more information, refer to www.medicaid.gov and www.elderlawanswers.com.

Long-term care insurance policies are another option, but they can be fairly expensive. There are a wide variety of care menus to choose from, enabling customized costs and levels of care. Long-term care insurance policies can help in guaranteeing against cancellation, avoiding premium increases, coordinating care-givers, and protecting against inflation; they can also be used to cover in-home care.

In general, the earlier you make a decision to purchase a long-term care policy, the less expensive it will be. Some insurance companies will offer a ten-year payment plan in lieu of monthly premiums. In many cases, couples can design their policies so that the surviving spouse can add any unused portion of the deceased spouse's benefit to their own.

Currently, there are 25 states where the prices of the policies are the same for both single men and women. This spring, however, leading insurers started introducing new policies that charge single women an average of 40% -60% more than comparatively aged single men.[1]

As with the rest of retirement, planning is key in order to make sure your needs will be met the way you would like.

[1] *American Association for Long-Term Care Insurance*

Living Arrangements

As you grow older and your circumstances change, you might want to consider one or several of the following choices:

1. You can stay in your present home. That may not be a bad choice—as long as you are physically and financially able to keep up with both indoor and outdoor maintenance. As you grow older, however, you might find it somewhat isolating.
2. You can move in with the kids or a relative and, in many cases, that might be the only option.
3. There are many retirement communities springing up across the country. Perhaps, this is your dream solution where you can participate in an active community of seniors—a community that provides restaurants and a wide variety of activities. Some of these communities offer the opportunity to move into assisted-living, when needed. That way you will have a seamless transition, if the need arises. Some of the expenses for this may even be picked up by a long-term care insurance policy.
4. Another solution that is suited to singles (single, divorced, widow, widower) is what I call the "Golden Girl" solution.

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Required Minimum Distributions

By Susen Friday, AIF® Client Service Regional Manager

This is the time of year that we get many questions from IRA shareholders regarding Required Minimum Distributions (RMDs). If you are an owner of an IRA/qualified plan and turned 70½ during 2013, you must determine how you would like to take the RMD from your accounts. Missing an RMD will result in a 50% tax penalty being charged on the amount that was not withdrawn, in addition to the ordinary income tax owed.

Note: If you have already taken your first distribution by December 2013, fine. If you haven't, you still have until April 1, 2014 to take the distribution. However, you will also have to take the 2014 distribution by December 31, 2014. As a result, you may have to pay taxes on two distributions in 2014.

If the IRA account holder dies, RMDs from the account may continue, contingent upon whether or not the beneficiary is a spouse, and if the death was before the 70½ birthday or not. If this situation applies, consult a tax professional.

Following is an example of how the RMD is determined for an IRA account holder who turned 70½ in 2013. If you will be turning 70½ in 2014, simply add one year to the dates in the example.

- The amount will be based on all of your IRA balances as of 12/31/2012.
- RMDs are calculated based on your birthday, the beneficiary's birthday, and whether or not the beneficiary is your spouse.

Several decisions will need to be made on how you want to receive your RMD:

- You have the option of deciding if you want to take a portion of the RMD total from each of your IRA/qualified plan accounts, only one of those accounts, or any combination of these accounts;
- You can go to the custodian of your IRA accounts and ask them to calculate the amount for the respective accounts; or
- You can go to any number of RMD calculators available on the Internet and calculate the total for all of your IRA accounts.

Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax adviser or legal counsel for advice and information concerning their particular situation.

Mark Your Calendar

AAII Central Florida Chapter

Wednesday, January 15, 2014
7:00 p.m. - 8:30 p.m.
University Club of Winter Park
841 Park Avenue North
Winter Park, FL 32789

Tony Muhlenkamp will present *Natural Gas: An Energy Game Changer*

To register for one of the limited open seats, please call our Client Service Department at (877)935-5520 extension 4.

AAII Pittsburgh Chapter

Tuesday, January 21, 2014
7:30 p.m.
Comfort Inn
Rodi Road
Penn Hills, PA

Jeff Muhlenkamp will be the guest speaker. He will present *Which Snowflake Causes the Avalanche?*

To register for one of the limited open seats, please call our Client Service Department at (877)935-5520 extension 4.

American Chemical Society

Wednesday, January 22, 2014
Spaghetti Warehouse in the Strip
2601 Smallman Street
Pittsburgh, PA 15222

Ron Muhlenkamp will present *Natural Gas: An Energy Game Changer*

The World Money Show Orlando

January 29 - February 1, 2014
Gaylord Palms Resort
Orlando, Florida

Ron Muhlenkamp will deliver the following presentations:
Keynote Address on **Wednesday, January 29, 2014**
4:25p.m. - 4:50 p.m.
Natural Gas: An Energy Game Changer

Thursday, January 30, 2014
10:30 a.m. - 11:30 a.m.
Natural Gas: An In-depth Look at How Natural Gas is Changing the American Economy

Thursday, January 30, 2014
5:15 p.m.- 6:15 p.m.
The Big Squeeze: How Taxes are Squeezing Your Income; How Interest Rates are Squeezing Your Assets

All of these presentations are free to attend. To register, call (800)970-4355 or visit www.moneyshow.com; please reference code 034348 when registering.

Announcements

2013/2014 IRA Contributions

You can make contributions to your IRA for 2013 until April 15, 2014. This includes Traditional, Roth, and Coverdell Education Savings Accounts. Also, it's not too early to begin funding your 2014 IRA! (To avoid confusion, be sure to specify the year for which you are making the contribution.)

Traditional and Roth IRA contribution limits for 2013 and 2014 are the lesser of $5,500 ($6,500 if you are age 50 or older) or 100% of your earned income; refer to IRS Publication 590 for more information. CESA annual contribution limits are $2,000 for each beneficiary; refer to IRS Publication 970 for more information. You can download copies of the IRS publications at www.irs.gov.

If you have questions, call us at (877)935-5520 extension 4.

Request for Email Address

To ensure you receive all of the correspondence that we publish and distribute, please share your email address with us. Occasionally, Muhlenkamp & Company publishes information that gets distributed by email only.

To be added to our email list, visit our website at www.muhlenkamp.com, or call us at (877) 935-5520 extension 4. Be assured that your contact information will not be released to any third party.

Friday Focus

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This is an arrangement whereby several friends, acquaintances, relatives, etc. decide to share a home. This is an opportunity to save money and have valuable companionship at the same time. House sharing is a growing trend, but must be entered into responsibly. That means having a clear set of rules governing household budgets, chores, screening of new housemates, and even how to exit the arrangement. By adopting a set of rules, there is a better chance of making the arrangement work.

If you have managed to work your way through this entire article, you should have learned one important thing. Old age is not for wimps!! If we can assist, please call us at (877)935-5520 extension 4.

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Inside this issue:

- The "FRIDAY FOCUS" on Retirement
- Required Minimum Distributions

At our investment seminar on November 7, 2013, Ron Muhlenkamp presented ***Natural Gas: An Energy Game Changer*** and Jeff Muhlenkamp presented ***The Big Squeeze: An Update***.

A video archive of the presentations is available on our website at www.muhlenkamp.com. If you prefer, call us at (877) 935-5520 extension 4 and we will mail you a DVD.