

Welcome!

Investment Seminar May 12, 2016

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Muhlenkamp & Company, Inc.

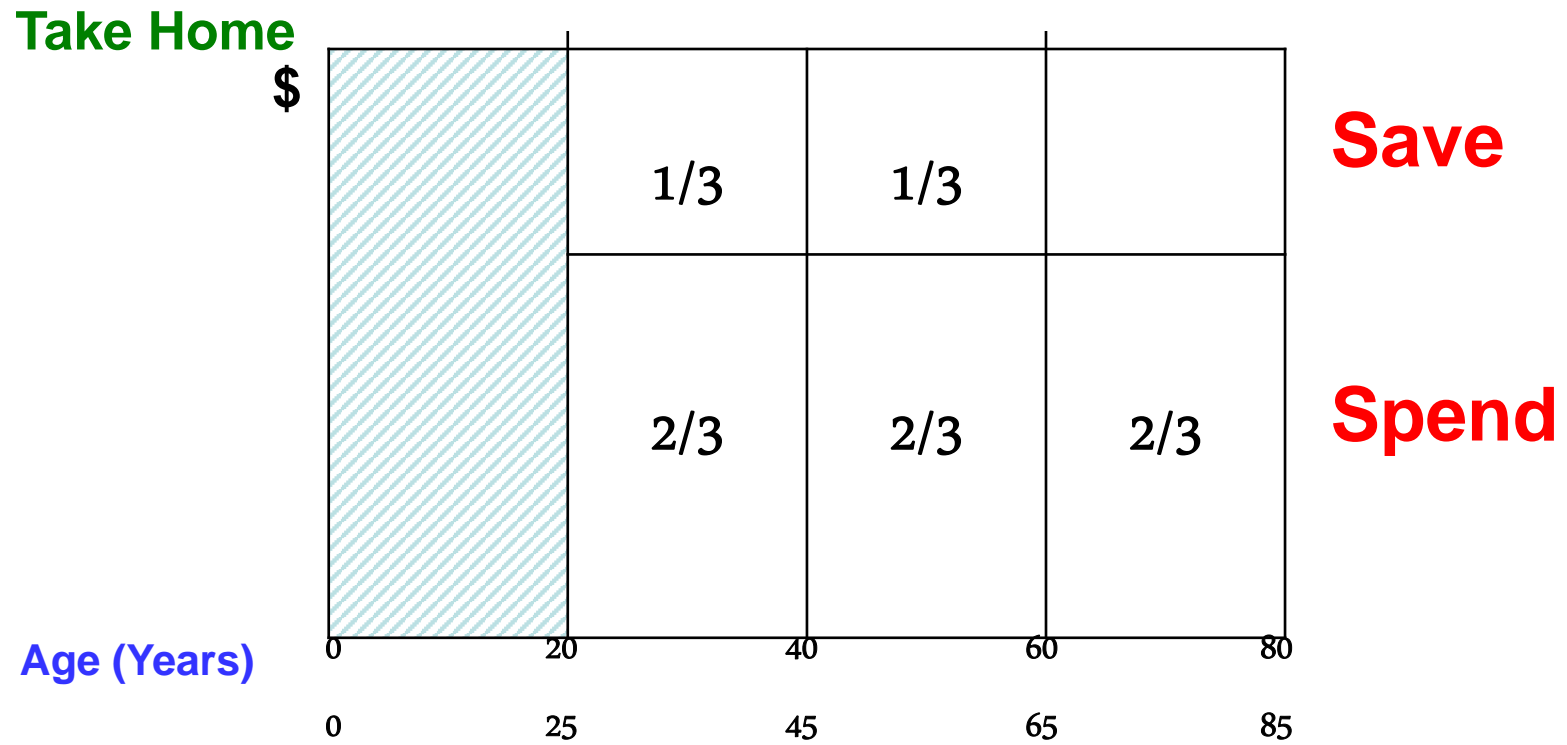
Intelligent Investment Management

“3 Legged Stool”

- **Personal Savings**
- **Social Security**
- **Company Pension/Profit Sharing (P/S)**

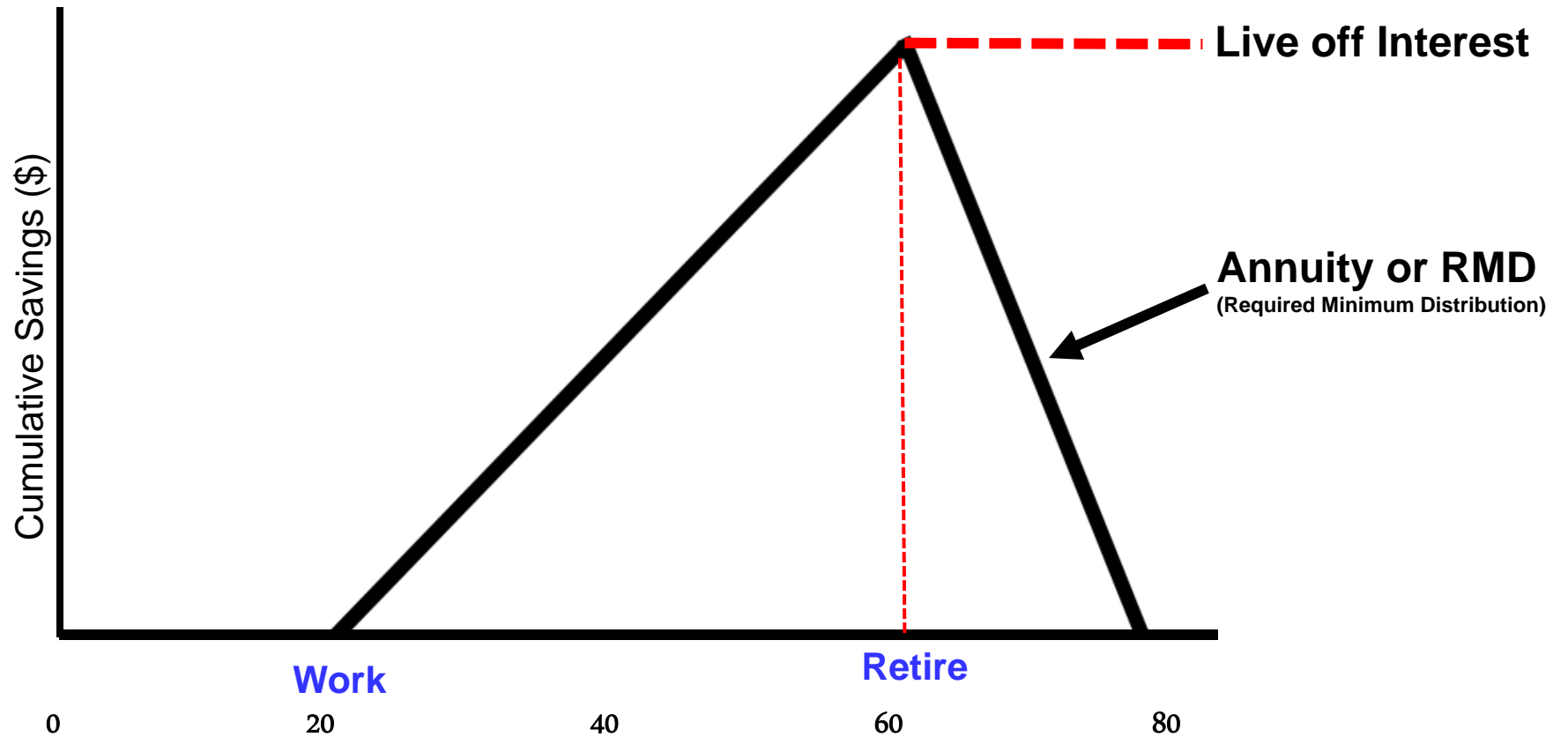


Spending Lifecycle



Source: Muhlenkamp & Company

Savings Lifecycle



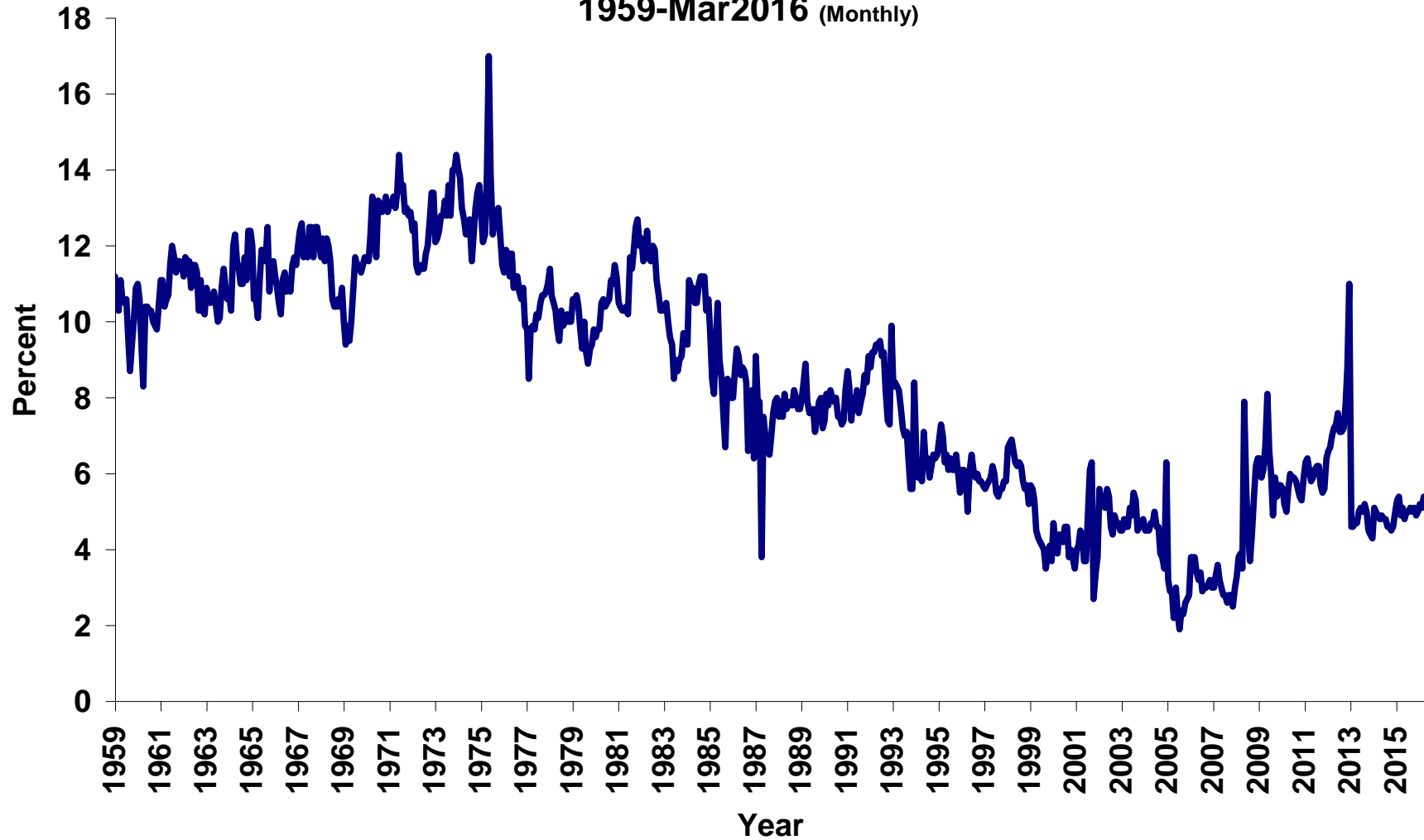
Source: Muhlenkamp & Company



U.S. Personal Savings Rate

% of Disposable Personal Income

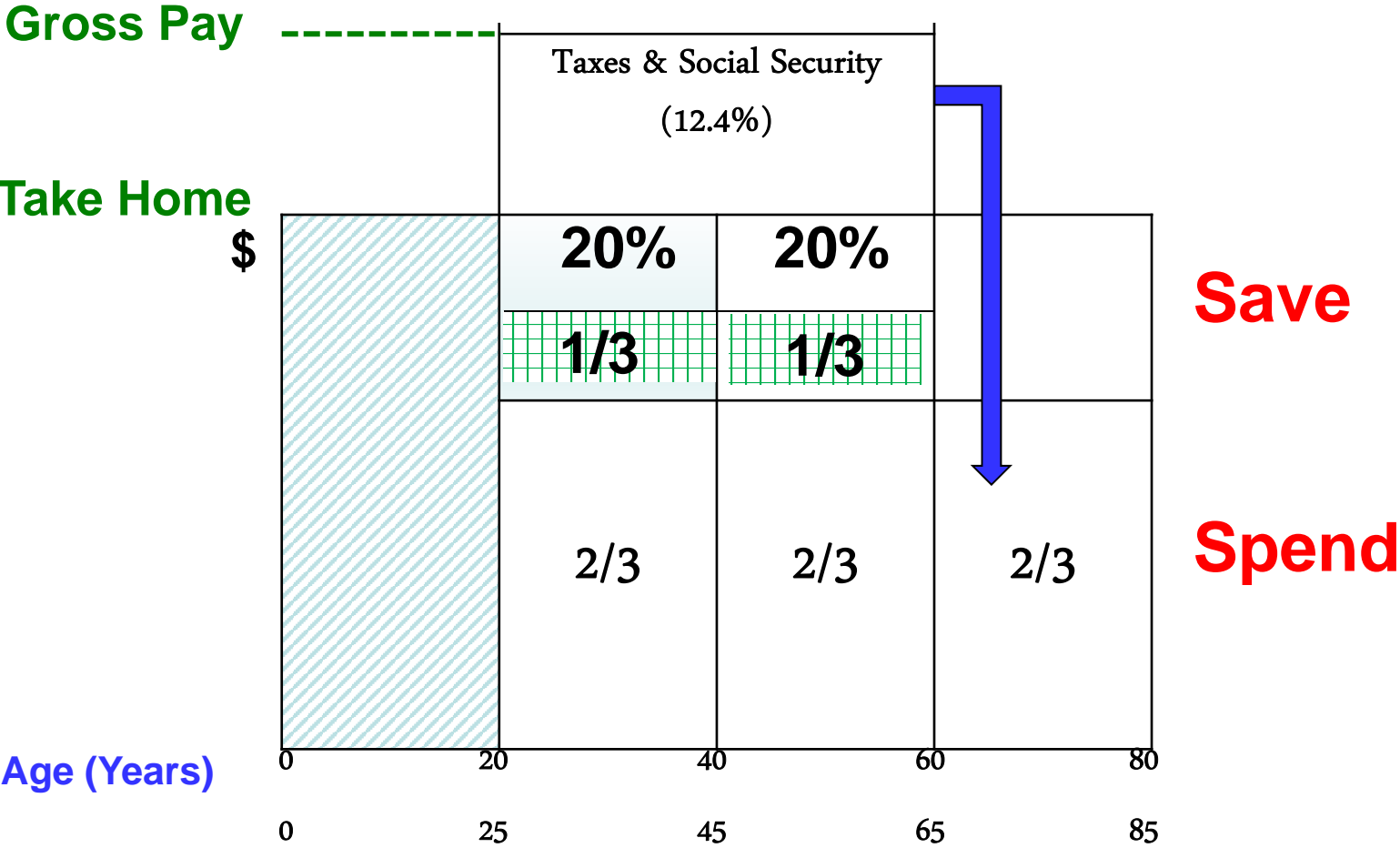
1959-Mar2016 (Monthly)



Source – Bureau of Economic Analysis

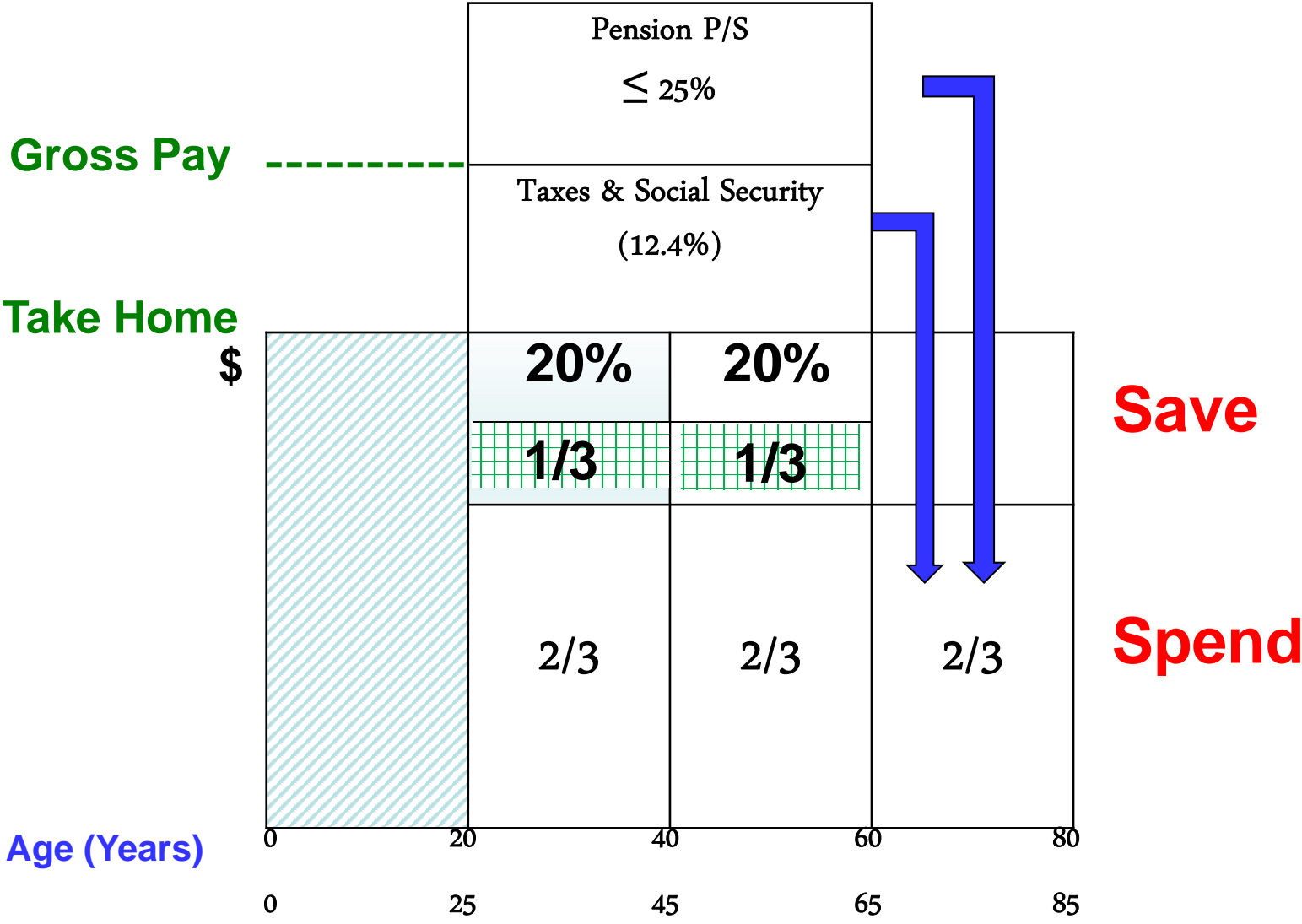


Spending Lifecycle



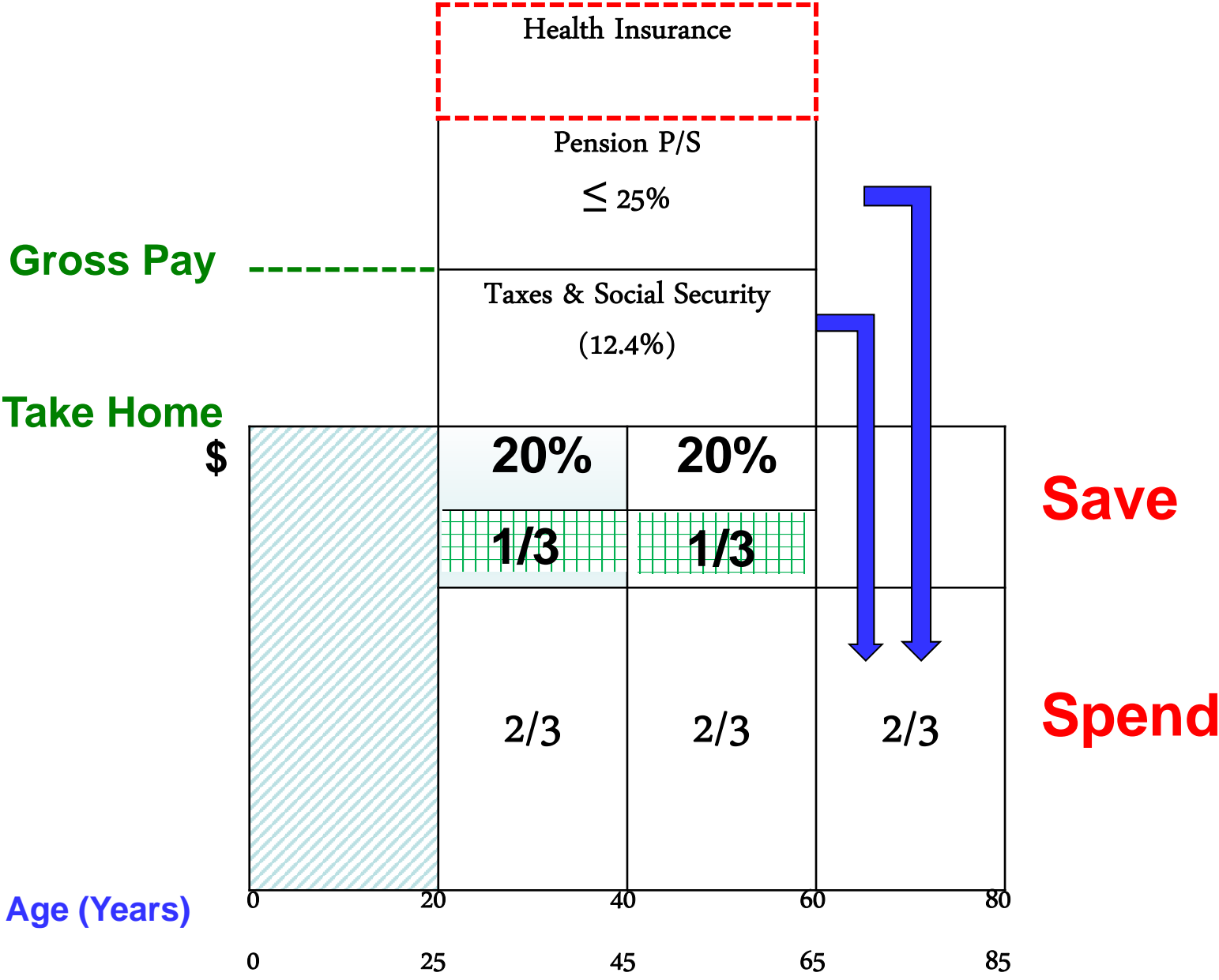
Source: Muhlenkamp & Company

Spending Lifecycle



Source: Muhlenkamp & Company

Spending Lifecycle



Source: Muhlenkamp & Company

Employment costs at Muhlenkamp & Company for 1996, 2006, and 2014

Employment Costs (W-2: Married Filing Jointly; No Dependents)

Employee's Deduction	January 1996	January 2006	January 2014
Gross Wage	\$36,000.00	\$40,000.00	\$45,000.00
FICA	2,754.00	3,060.00	3,442.50
• Social Security (6.2%)			
• Medicare (1.45%)			
Federal Withholding	3,626.00	2,714.00	2,861.00
PA State Withholding	1,008.00	1,228.00	1,400.00
PA State Unemployment	10.80	36.00	31.50
Occupational Tax	10.00	10.00	N/A
Local Services Tax	N/A	N/A	52.00
Local Earned Income Tax	360.00	400.00	450.00
Employee's Take-Home Pay	\$28,231.20	\$32,552.00	\$36,763.00



Employment costs at Muhlenkamp & Company for 1996, 2006, and 2014

Employer's Costs	January 1996	January 2006	January 2014
Gross Wage	\$36,000.00	\$40,000.00	\$45,000.00
FICA	2,754.00	3,060.00	3,442.50
• Social Security (6.2%)			
• Medicare (1.45%)			
Health Insurance	4,207.32	13,765.20	22,264.00
PA State Unemployment	167.52	266.94	557.76
Federal Unemployment			43.00
Employee's Cost to Company	\$43,128.84	\$57,092.14	\$71,307.26
Pension/Profit Sharing Contribution	9,000.00	10,000.00	11,250.00
Employee's Cost to Company	\$52,128.84	\$67,092.14	\$82,557.26
 Employee Cost: Employee Take-Home Pay (Pre-Profit Sharing)	 1.53	 1.75	 1.94
 Employee Cost: Employee Take-Home Pay (Post-Profit Sharing)	 1.85	 2.06	 2.25*

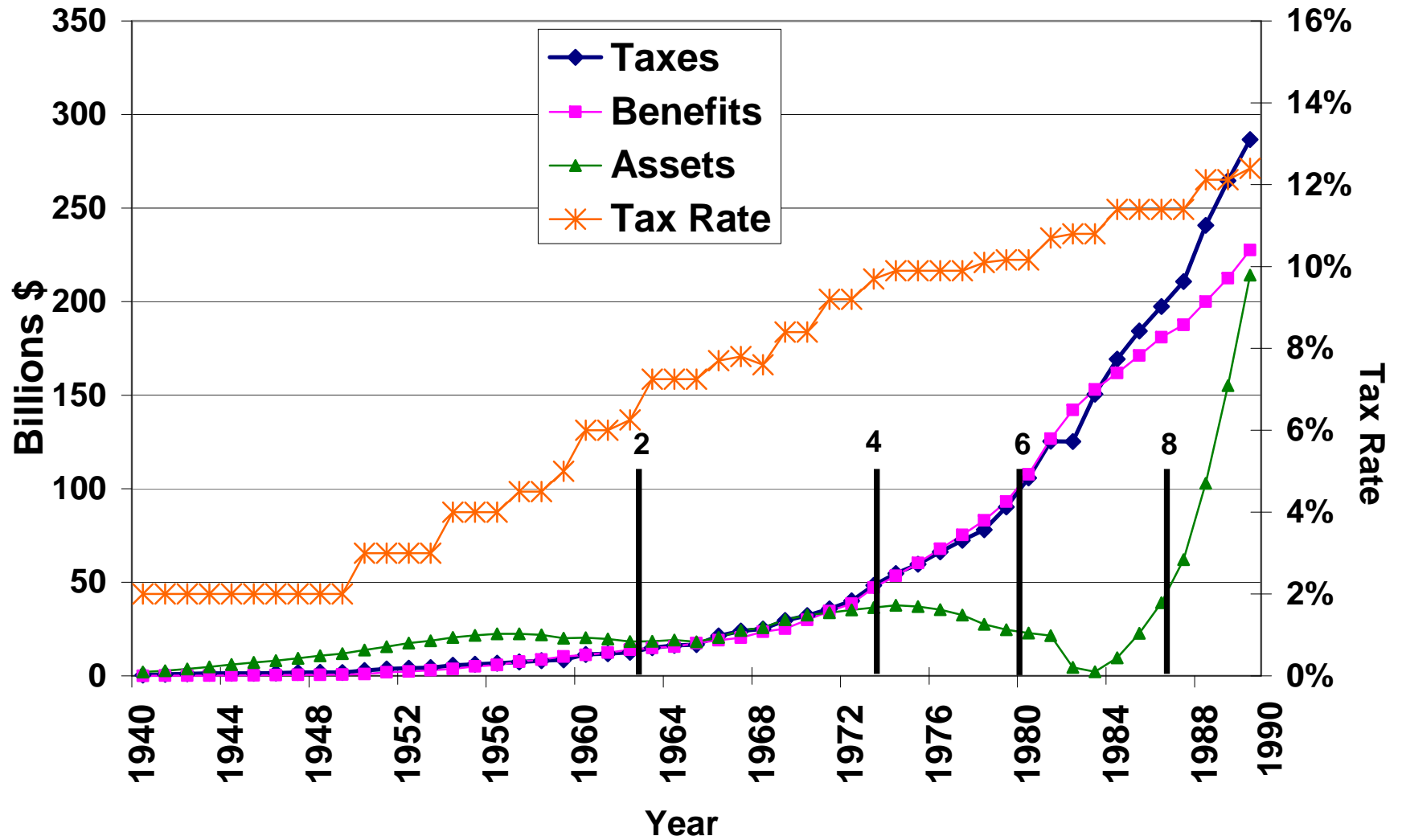
Employment Costs 2014 (W-2: Married Filing Jointly; No Dependents)

The table on the reverse side shows the W-2 numbers for someone making a gross income of \$45,000.00 per year; his/her take-home pay is \$36,763.00. This is what "employment" looks like to the employee. Additionally, the table also shows the amounts paid by the employer for FICA and health insurance, various unemployment taxes, etc., which most employees don't see. For the employee to take home \$36,763.00, it costs the employer \$71,307.26 or \$82,557.26 with a pension/profit sharing contribution. This is what "employment" looks like to an employer.



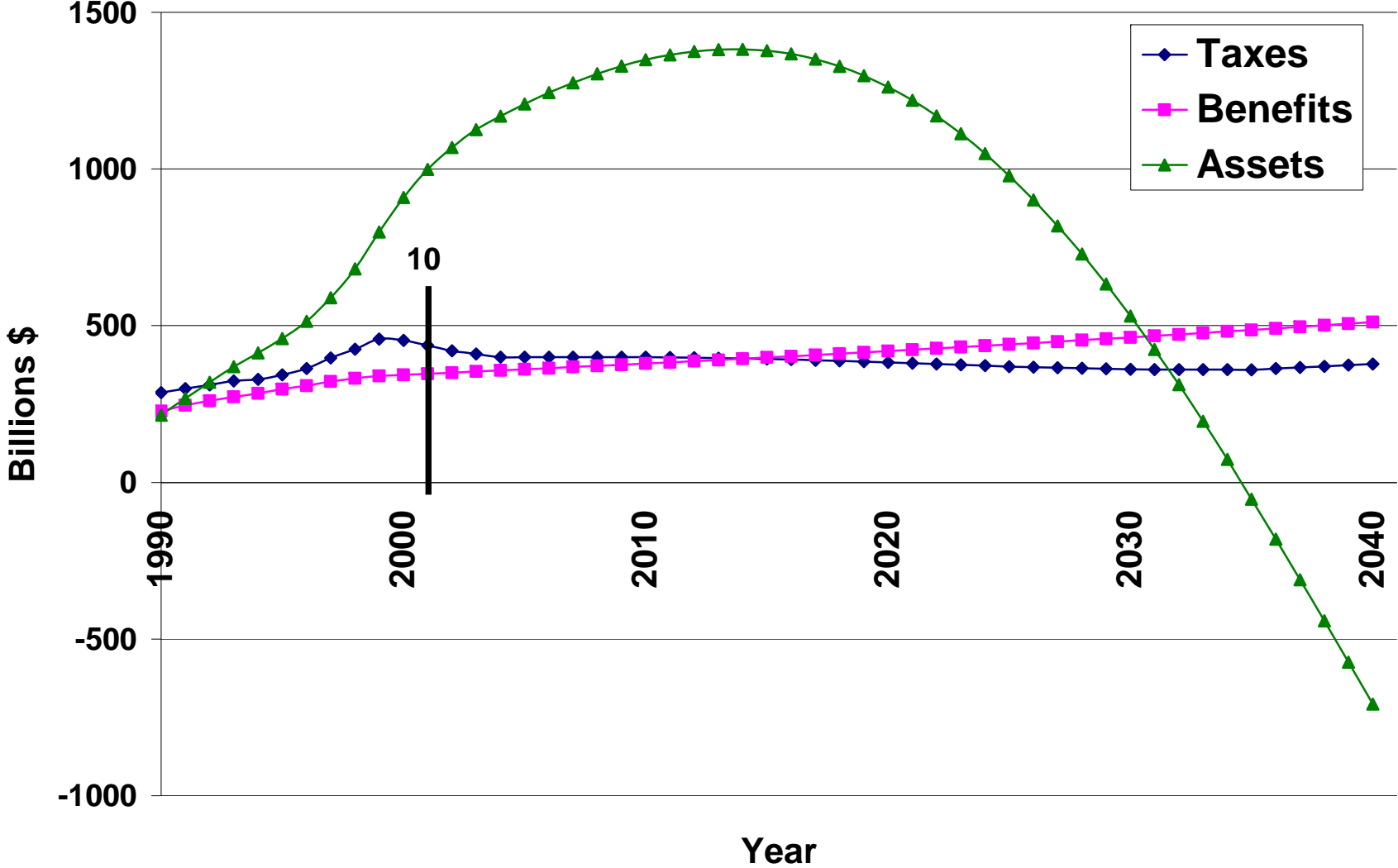
Specifically, for my son to take home \$1.00, it costs me (his employer), \$2.25, so he must produce \$2.50. The 25 cents is my return for hiring him. (In fact, the average profit-payroll ratio in the U.S. economy is 10%-11%.) If you tax (or regulate) away the 25 cents, none of this happens. (To learn more, read *The Trouble with Government Spending* by Ron Muhlenkamp, available at www.muhlenkamp.com.) Copyright 2016 Muhlenkamp & Company, Inc. All Rights Reserved.

Social Security



Source: Muhlenkamp & Company

Social Security



Source: Muhlenkamp & Company

Social Security Benefits

	Monthly	Annual	Annual
Average Wage per SSA 2016	\$4,167	\$50,000	\$100,000
 2016 Social Security Benefits Calculation: if wages were \$50,000/year			
90% of \$10,000, plus	\$750	\$9,000	\$9,000
32% of earnings \$10,000<=>\$46,000 plus	\$960	\$11,520	\$11,520
15% of earnings > \$46,000	\$50	\$600	\$8,100
Total	\$1,760	\$21,120	\$28,620
% of current wage	42%	42%	29%

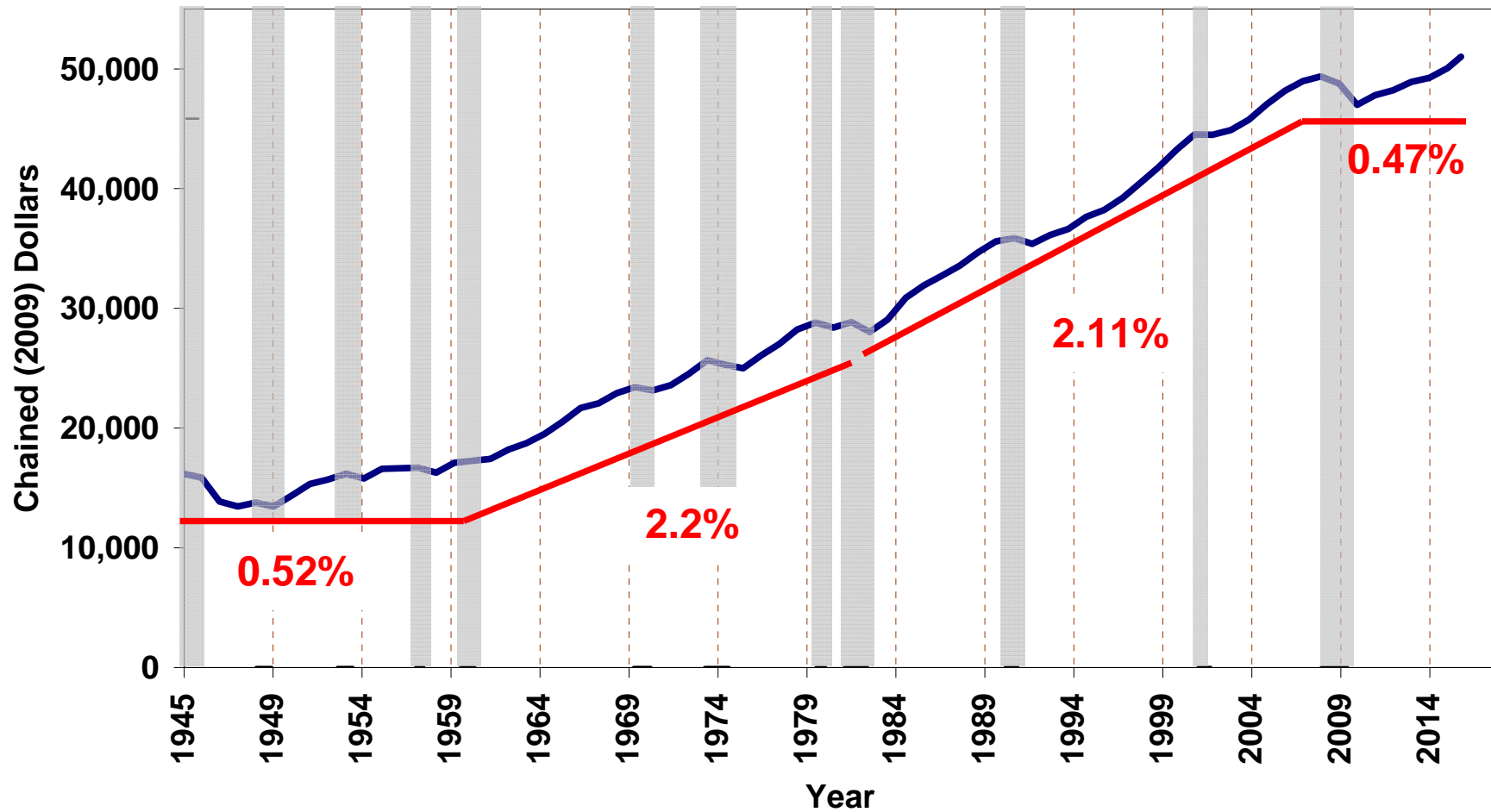


What's Changed?

- △ Longevity
- △ Worker/Retiree Ratio
- △ GDP
- △ Productivity
- △ Interest Rates

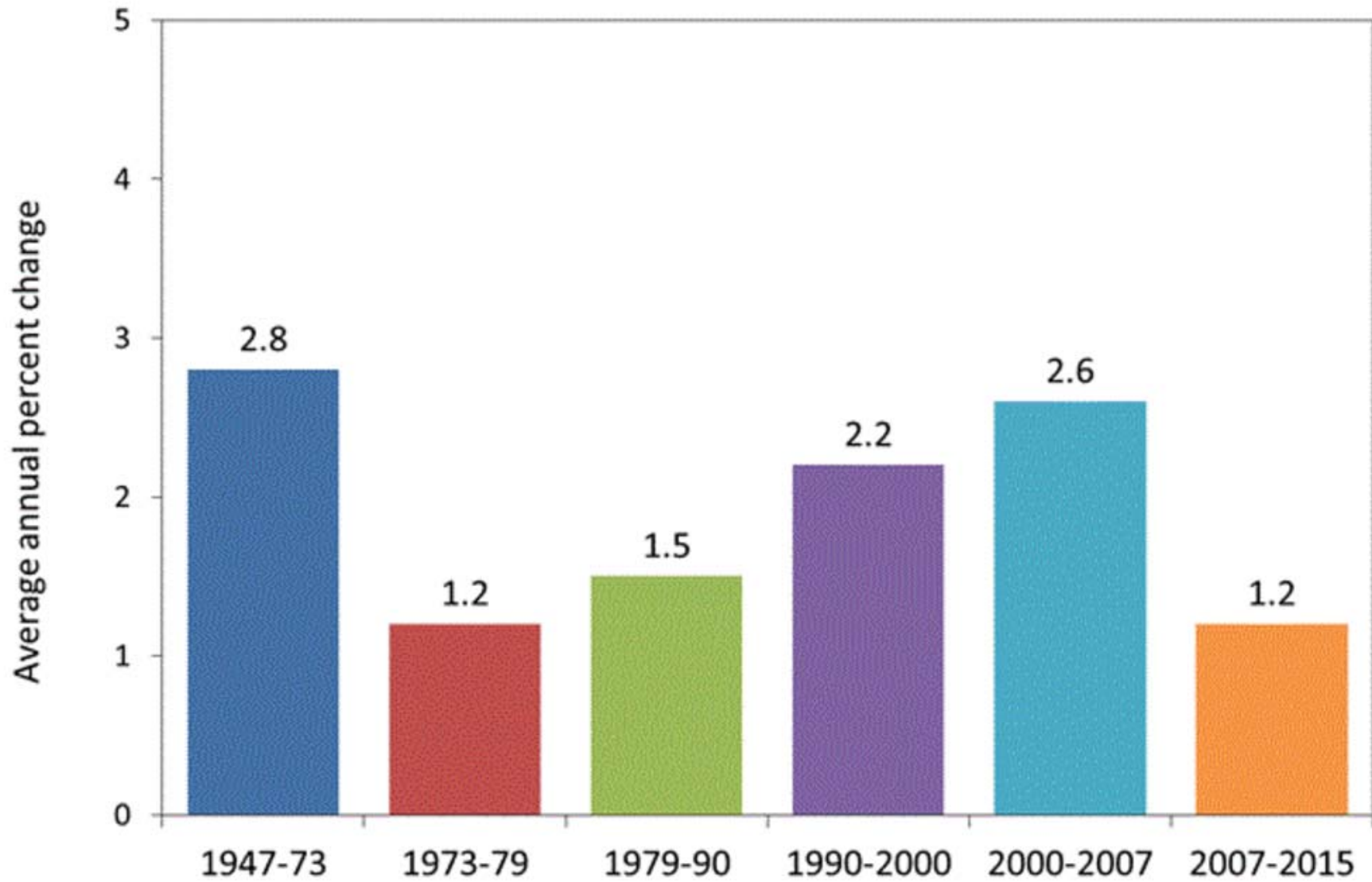


Real Gross Domestic Product per Capita 1945-Nov2015 (Yearly)



Source: Bureau of Economic Analysis

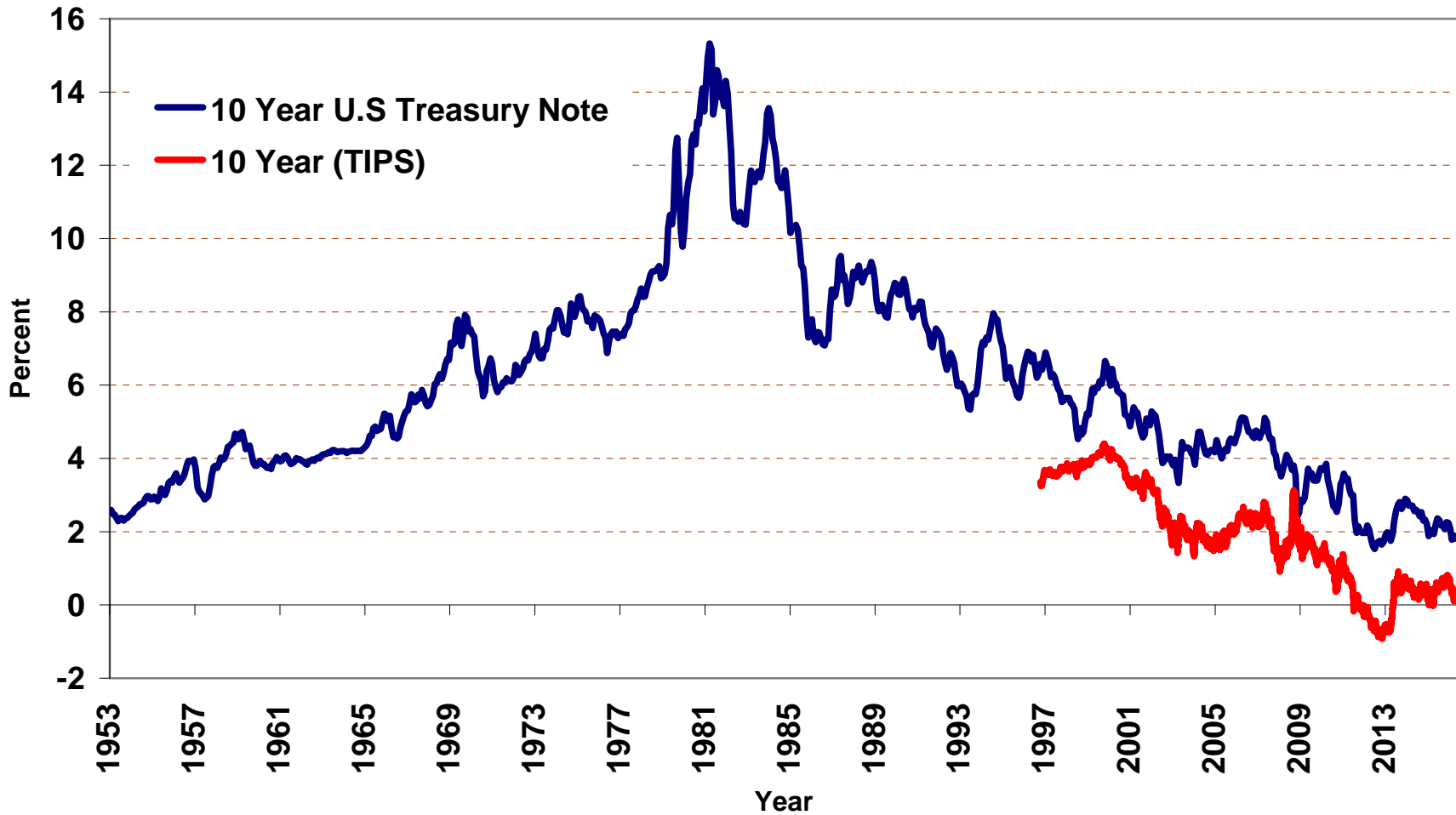
Productivity change in the nonfarm business sector, 1947-2015



Source: U.S. Bureau of Labor Statistics

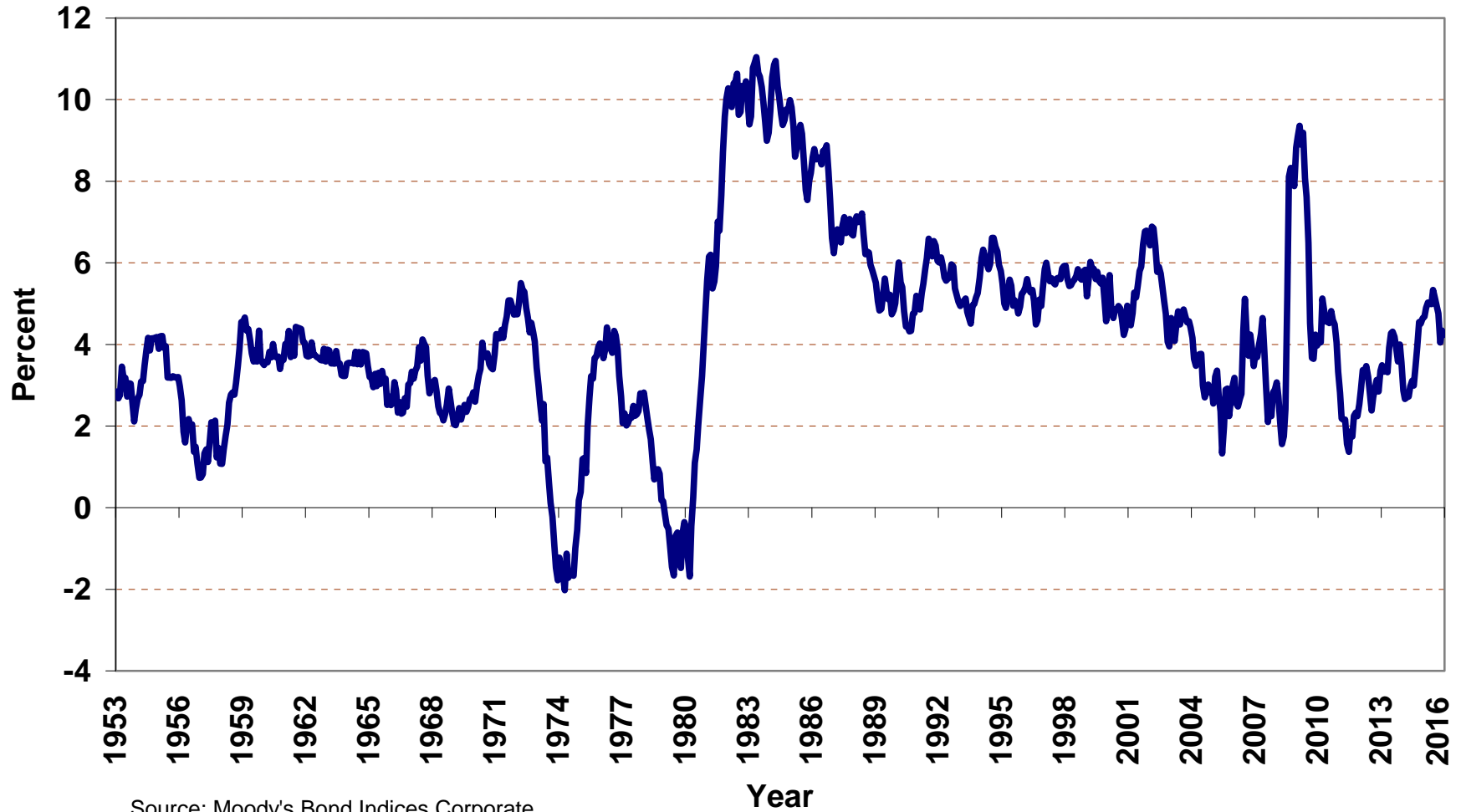


10 Year U.S Treasury Note Interest Rate 10 Year U.S. Treasury Inflation-Protection Security (TIPS) 1953-May2016 (Monthly)



Source: Bloomberg

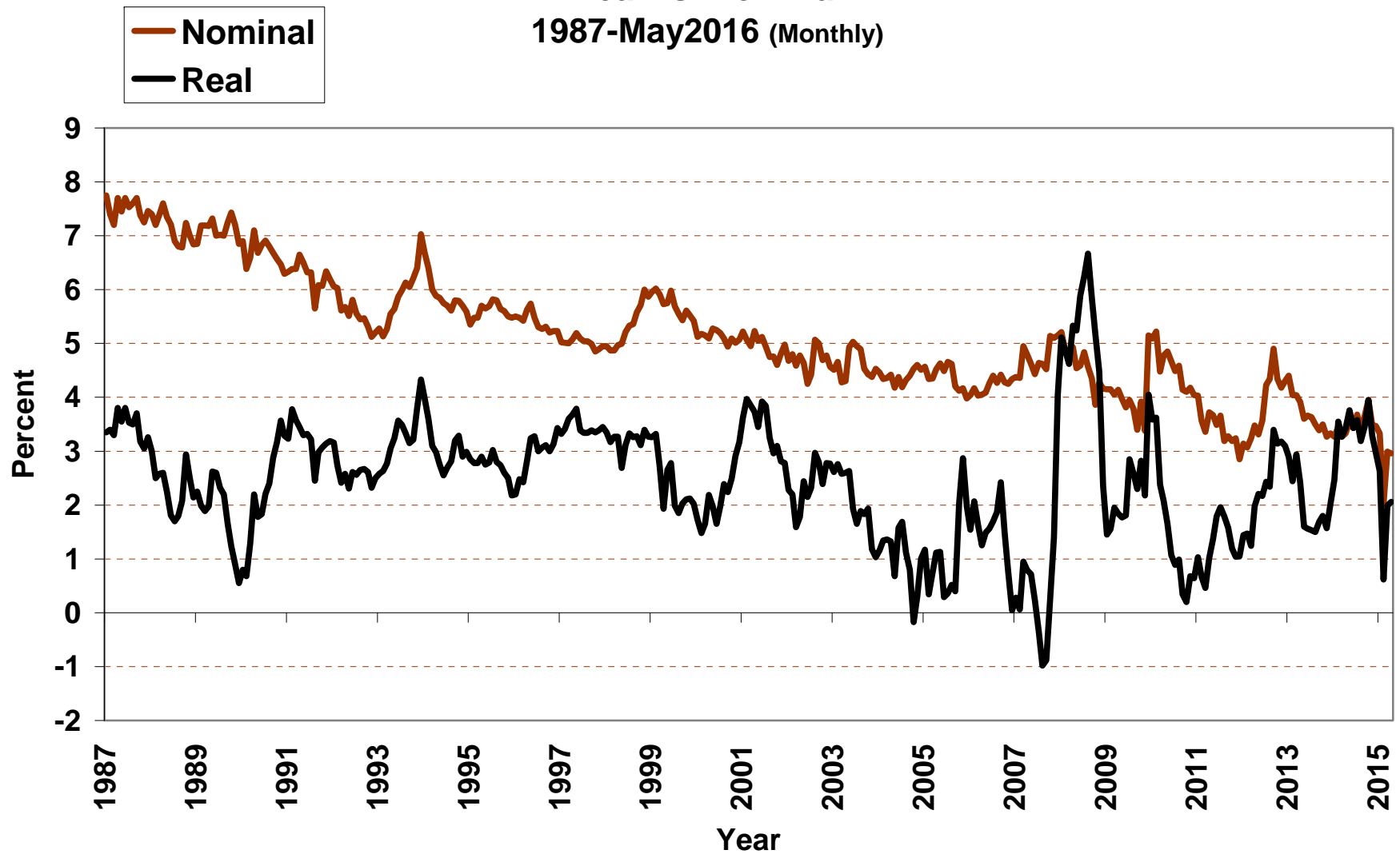
Real 30 Year BAA Corporate Bond Rate 1953-Mar2016 (Monthly)



Source: Moody's Bond Indices Corporate



Moody's Municipal Bond Yield Avg AA 20 Year Real vs. Nominal 1987-May2016 (Monthly)



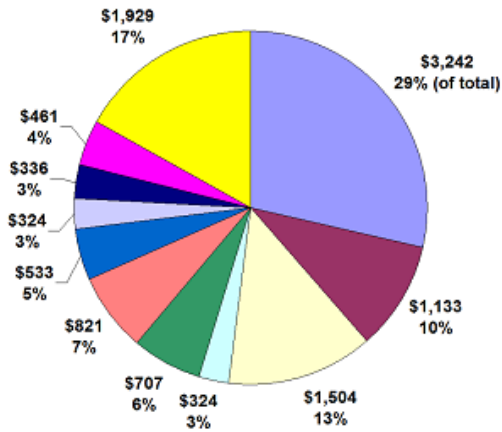
Source: Bloomberg

U.S. Personal Consumption Expenditures Per Capita

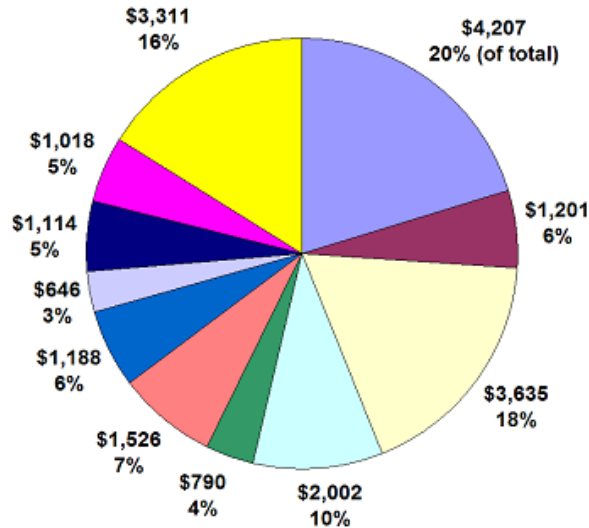
1950, 1980, and 2010

(Real 2010 dollars)

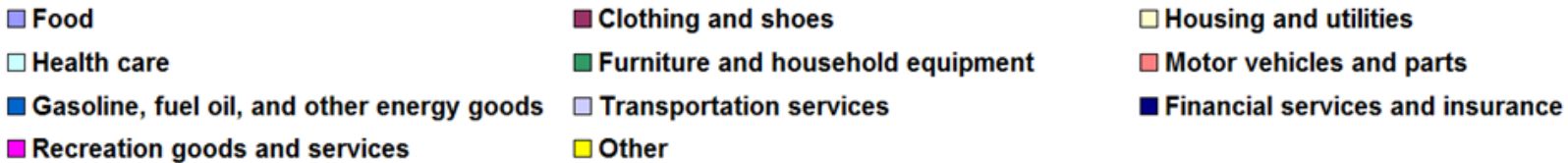
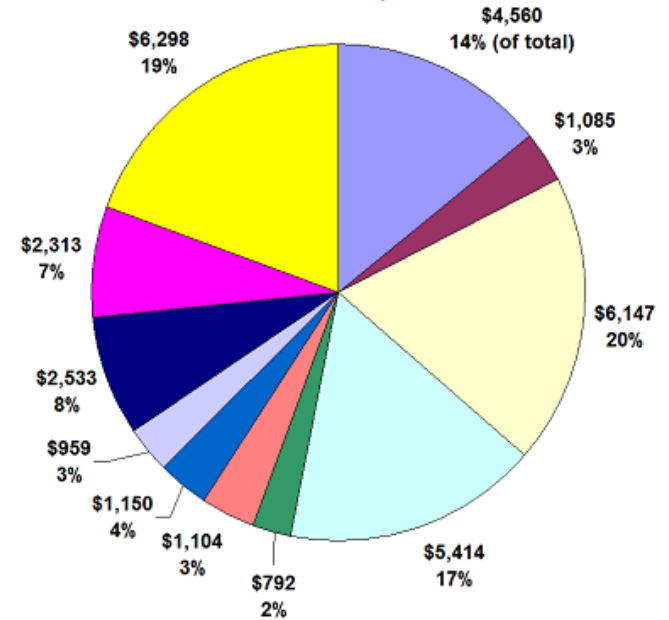
1950
Population: 151MM
Total \$11,313



1980
Population: 227MM
Total \$20,638



2010
Population: 308MM
Total \$32,354



Source: Bureau of Economic Analysis

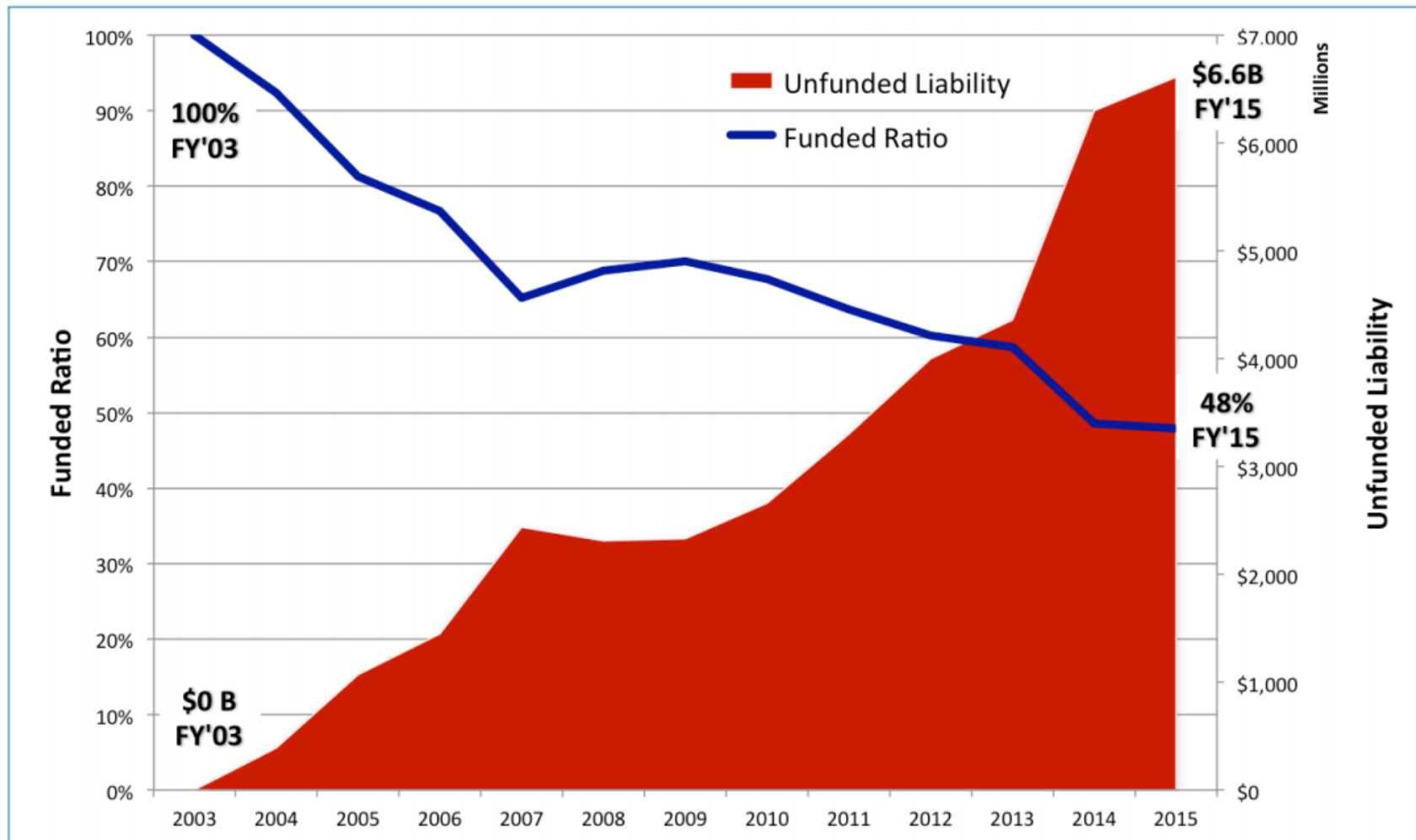
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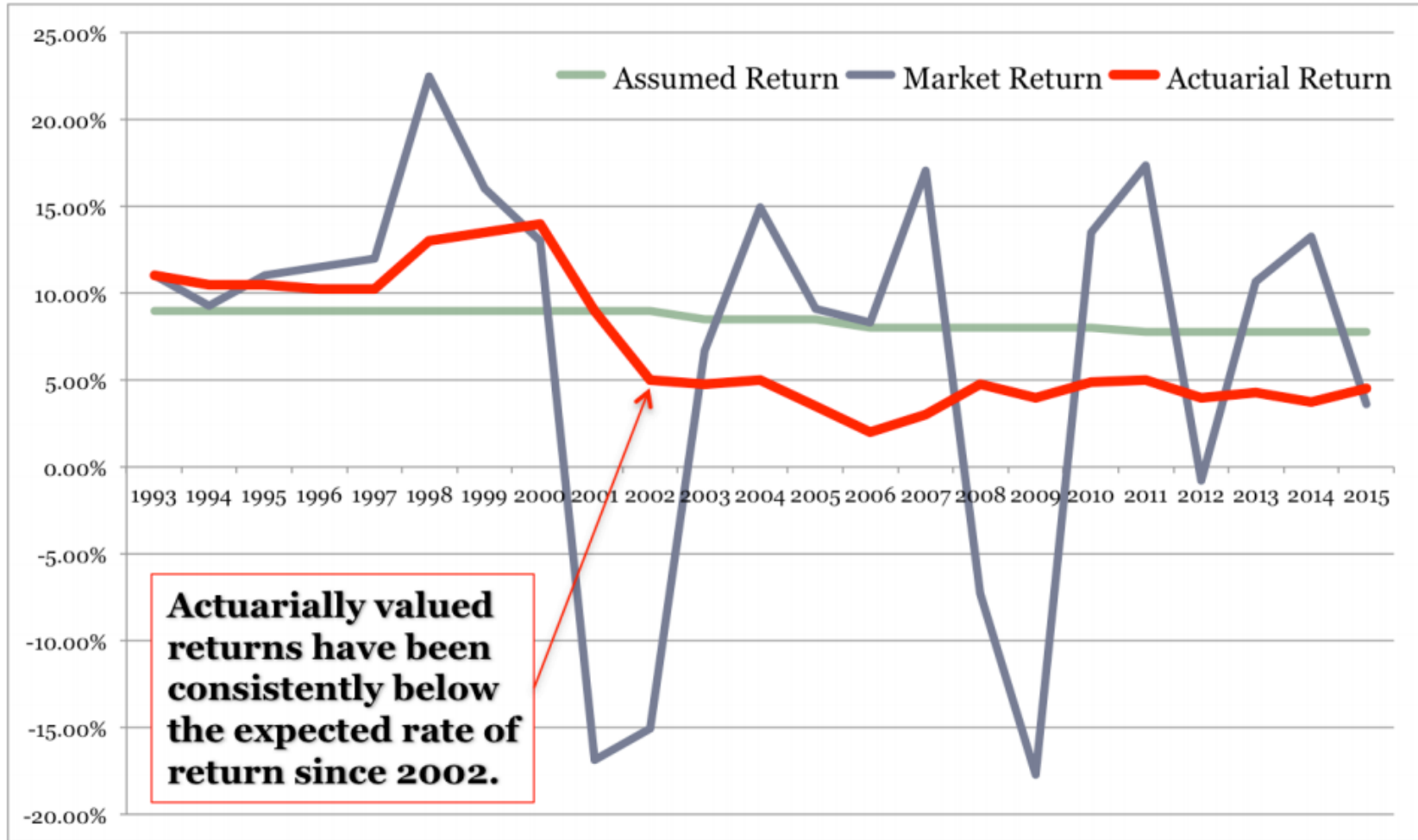


PSPRS Degrading Solvency



Causes of Problems With PSPRS:

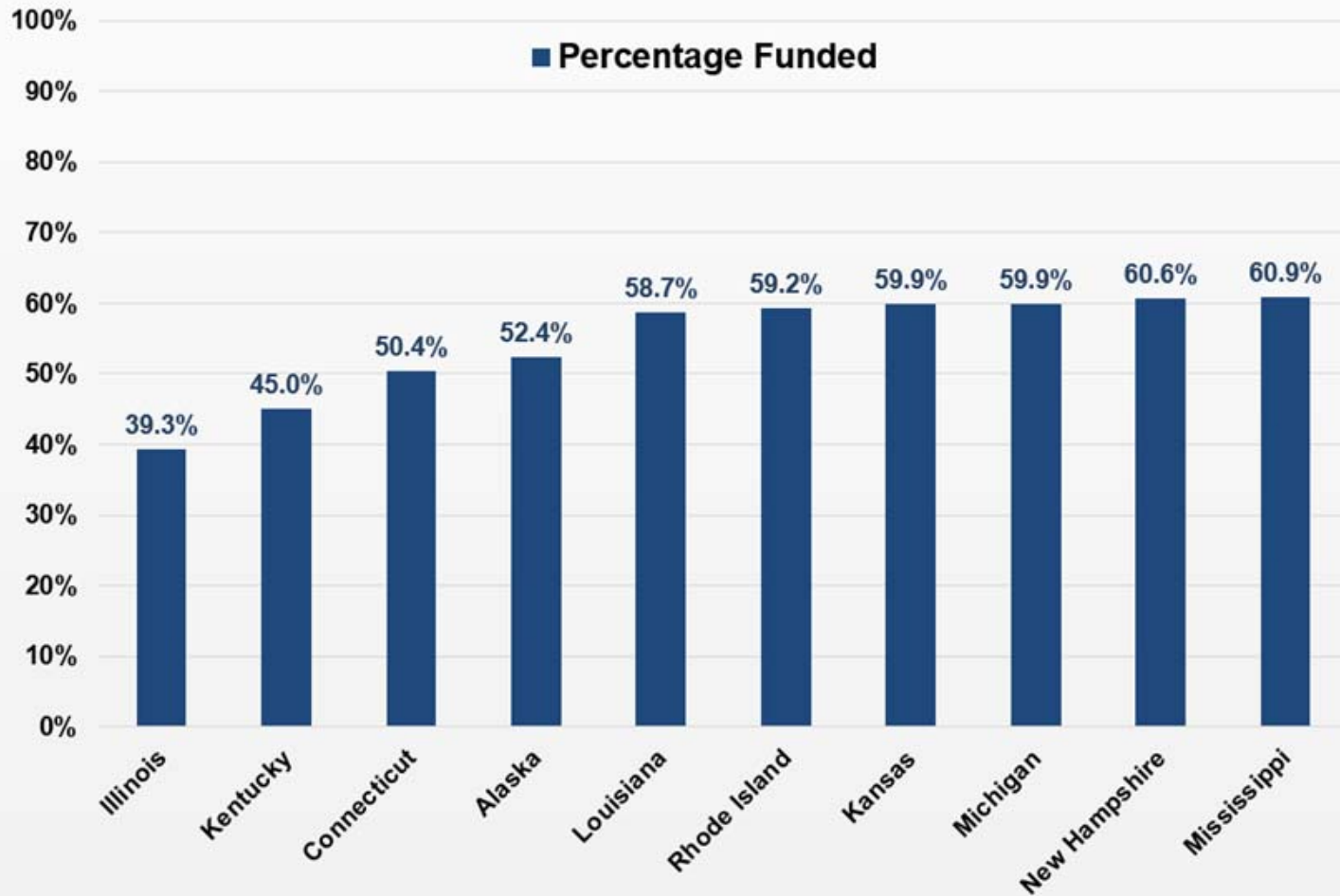
PSPRS Actual Investment Returns, 1993-2015



Source: PSPRS Presentation, "The Past, Present, and Future of PSPRS: An Educational Employer Seminar," February 2015 and publicly available PSPRS valuation reports.



10 States With the Most Underfunded Pensions



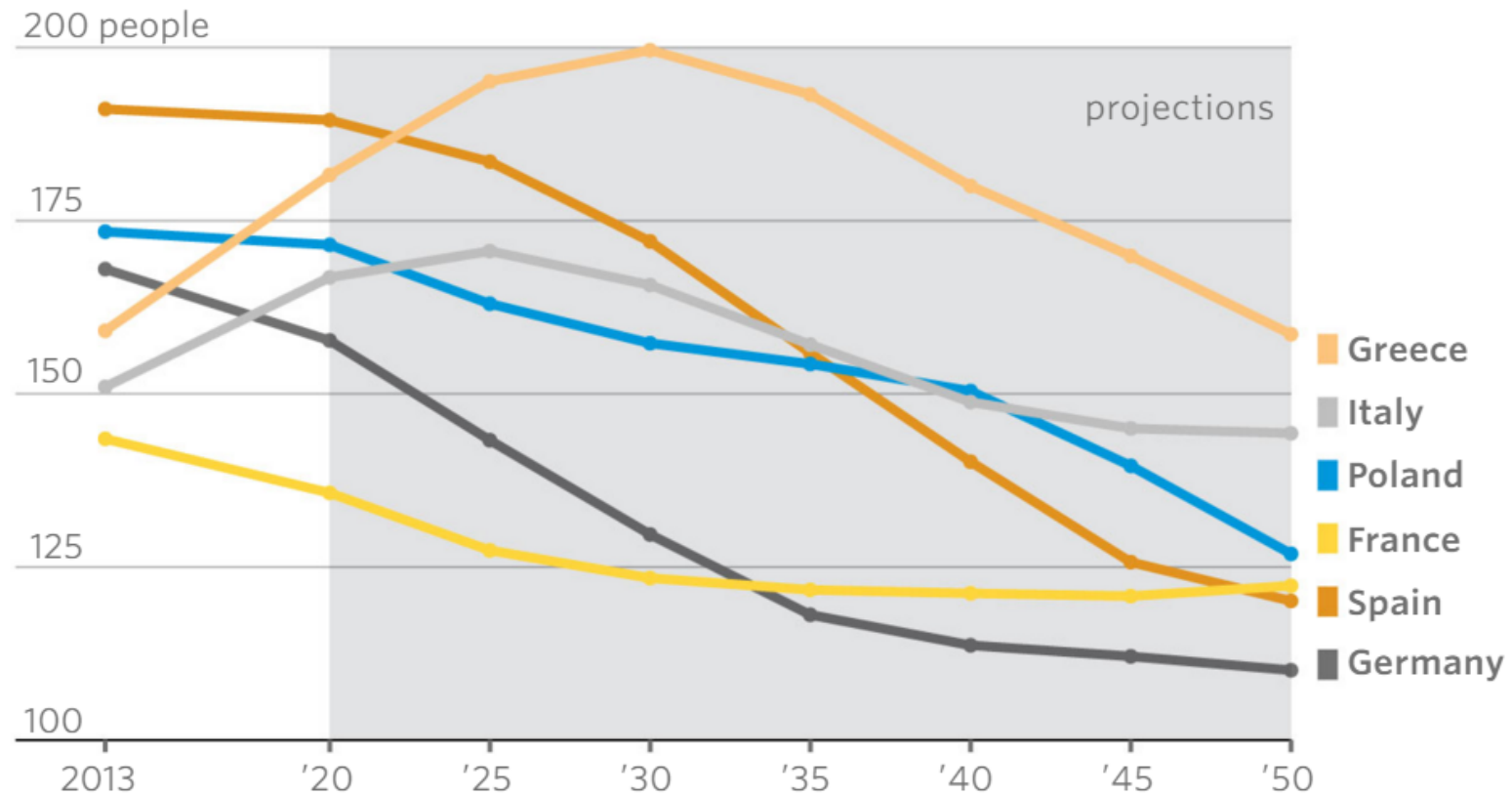
Source: Bloomberg Visual Data: Bloomberg Best (and Worst)

www.dentresearch.com



Fewer Kicking In

Pension contributors per 100 recipients



Note: No data for the U.K.

Source: European Commission, The 2015 Ageing Report



You've spoken a lot about really large problems I can't control, what can I do?

- **Revisit your financial plan**
 - ✓ Double check your return assumptions
 - ✓ Check the underlying assumptions of any financial products you own (annuities, pensions, etc.)
 - ✓ Build resilience into your plan.
 - ✓ We can help
- **Pay attention to politics**
 - ✓ The mismatch between promises and existing assets will be resolved politically at many levels – school district, county, state, federal. Pay attention so you don't get blindsided. If you want to try to influence the debate, find a way to get involved.



Questions and Responses



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Intelligent Investment Management



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