Muhlenkamp Memorandum

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Quarterly Letter

By Ron Muhlenkamp

While the economic trends of the past couple of years continue, we've just seen an important change in interest rates and the bond markets.

First, the economic trends:

- Europe is in a recession.
- China is attempting to shift from an infrastructure and export focus to more domestic consumption, but the transition is hampered by reluctant local leaders and their interest in recent successes. The resulting stresses are making it difficult for China to reach its announced targets for growth.
- In the U.S., growth continues to be tepid despite gains in autos and housing. First quarter GDP (Gross Domestic Product) growth was just 1.8% (initial estimates were 2.4%) as consumer spending on services is subdued.
- Since the end of April, interest rates have rebounded nearly a full percentage point as the markets speculated on when the Federal Reserve stimulus would taper off.

Second, interest rates and the bond markets:

- Since the end of April, 10-year Treasury yields have gone from 1.7% to 2.6% and 30-year mortgage rates have gone from 3.4% to 4.5 percent. Frankly, we think these moves are healthy as they are advancing toward normal levels. (Interest rates have been held below normal market levels by the Federal Reserve in a belief that this would foster economic growth.) Specifically, higher interest rates benefit retirees and pension funds.
- U.S. bond markets now appear to be focusing on the likely end to stimulus and have moved interest rates higher, thereby driving bond prices lower.
- Whatever the underlying cause, a full 1% increase in less than two months is dramatic in the bond market and potentially disruptive in the stock market. In fact, the stock market has recently sold off 5%-10% in the various indices after a strong up-move since last fall. It now seems to be stabilizing as we look forward to second quarter earnings.

In a world where the U.S. economy is growing at 2% and most other economies are also growing well below potential, we expect that the stocks of companies that can report good revenue and earnings growth will do well.

The great disappointment is that the improvements in the U.S. stock market and Federal income tax receipts (and in European bond markets) have given politicians on both sides of the Atlantic an excuse not to rein in government spending in a meaningful way.

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.

Mark Your Calendar

Cleveland AAII Meeting

Wednesday, September 18, 2013
7:00 p.m.
Brecksville Community Center
1 Community Drive
Brecksville, OH 44141

Ron Muhlenkamp will deliver *The Big Squeeze: How taxes are squeezing your income; how interest rates are squeezing your assets.*

To register, please call our Client Service Department at (877) 935-5520 extension 4.

BetterInvesting 62nd Annual National Convention*

Saturday, September 21, 2013
9:40 a.m. – 10:30 a.m.
Sheraton Square Hotel, Pittsburgh PA

Ron Muhlenkamp will deliver a keynote address: *Natural Gas: An Energy Game Changer.*

Free to the public.

To register, please visit this link: http://binc2013public.eventbrite.com, or contact our Client Service Department at (877) 935-5520 extension 4.

** Since 1951, BetterInvesting has helped over five million people become better, more informed investors. Its mission is to provide a program of sound investment information, education, and support that helps create successful lifetime investors.*

Muhlenkamp & Company, Inc.
Intelligent Investment Management

Ask Muhlenkamp

At our investment seminar on May 21, 2013, Ron Muhlenkamp presented ***The Big Squeeze: How taxes are squeezing your income; how interest rates are squeezing your assets.*** Afterwards, Ron and his Investment Analysts entertained questions from the audience. Following are responses to these and other questions that have recently surfaced. If you have any questions or comments, please don't hesitate to contact us at (877) 935-5520 extension 4.

An archive of the seminar is available on our website at www.muhlenkamp.com.

About the global economy…

What's happening with the Japanese economy?

Shinzo Abe became the Prime Minister of Japan for the second time in December 2012. (He was previously Prime Minister in 2006-07.) Abe campaigned on a three-part program of returning growth to the Japanese economy: reversing austerity measures and using fiscal policy to boost the economy; weakening the yen to boost exports and increase inflation; and reforming some business laws to encourage growth.

Upon election, Abe installed a new governor for the Bank of Japan (BOJ), Haruhiko Kuroda, who introduced a large program of yen creation and asset purchases by the BOJ. As a result, the value of the yen dropped from 80 yen/dollar to 102 yen/dollar, the Nikkei-225 Stock Average rose 65% from December 2012-May 22, 2013 (then dropped 12% from May 23-May 30, 2013), and the yield on 10-year Japanese bonds rapidly increased .5% in early April 2013 to nearly 1% in mid-May—still very low, but quite a dramatic change in a short period of time.

In our opinion, the problem the Japanese are trying to solve is the enormous debt burden of their federal government, currently about 240% of annual Gross Domestic Product (GDP). The previous government wanted to address the problem largely through tax increases. Abe campaigned against this, wanting to grow his way out of debt—thinking the country can generate economic growth through currency devaluation and inflation.

If Abe can achieve inflation, it will help the borrower (the government) at the expense of the saver (everybody else in Japan). Currency devaluation will help the exporter, e.g. Toyota, at the expense of the importer, e.g. the Japanese consumer and Toyota, as well. (Japan doesn't have a lot of natural resources and must import pretty much everything.) So Abe's hope is the debtor will be helped more than the saver is hurt.

We believe real GDP growth (net of inflation) comes from either a growing population, increased productivity, or both. Japan's population is declining faster than its productivity is increasing, which is why it has had zero real growth for 20 years. Devaluing the currency and generating inflation won't change that, which means, in real terms (i.e. purchasing power), the quality of living in Japan will come down. We have strong doubts that this will work out well for Japan.

For more on our thoughts about inflation, please see the question/response within the "About the U.S. economy…" section of this article.

What's happening with the Chinese economy?

We believe it continues to expand. The Chinese leadership has targeted GDP growth of 7.5% for this year, and, unsurprisingly, it looks like they will meet it. The Chinese leadership has also stated it wants to shift from an "infrastructure build-out" growth model to a consumer-led growth model. Doing so will neither be easy nor quick; movement in the new direction has been slow.

Clearly, Chinese demand for industrial commodities has cooled and, since China had been the growth driver for many materials industries, we think commodities and basic materials will do poorly. We continue to look for companies that meet the needs of the Chinese consumer.

What's interesting is we're now seeing estimates that within three years (2016) the labor cost in China will be as high as labor costs in the U.S. We're starting to see outsourcing return to the U.S. As Chinese labor costs go up, (family planning laws have had a dramatic effect on its workforce), robots—jiqiren in Chinese, literally "mechanical people"—have proliferated in China, many of them homegrown.[1]

About the U.S. economy…

Inflation has been added to the checklist of things you routinely monitor. If inflation does increase, how will it change the portfolio? What will you do differently?

Historically, when the Federal Reserve (Fed) printed money faster than our economy was growing we got inflation because the velocity (turnover) of money was fairly stable or gradually expanding. In 2008, however, velocity fell through the floor,

[1] *http://www.businessinsider.com/china-is-buying-robots-like-theres-no-tomorrow-2012-11*

which is why the Fed doubled the size of its balance sheet. (Those of you who have been listening to us for awhile know that we didn't fear inflation for the past several years because much of the money the Fed printed was to offset a collapse in the velocity of money.)

One of the triggers that tell us the velocity of money is picking up is an increase in commercial and industrial loans. Because businesses are becoming a little more willing to borrow and banks are becoming a little more willing to lend, inflation is now on our red flag list.

As consumers, most people think of inflation in terms of price increases. As investors, we think of inflation not as prices moving up—but as the value of money shrinking. Inflation eats into the purchasing power of our income and assets. Today, we can't protect the purchasing power of our assets against 2% or 3% inflation with cash (T-Bills, CDs, and Passbook Savings) or even long-term Treasuries.

We believe that by investing in companies with strong balance sheets and free cash flows, we are better able to protect the purchasing power of our assets. Such companies, however, must also be able to adjust for changes in the inflation rate.

Know that if we have a gradual rise in inflation—if it moves up at a rate that companies can respond to based on sufficient demand—companies can, in fact, offset inflation. But there are two qualifiers: it has to be gradual and businesses have to see enough demand in the economy to offset it.

Remember, inflation normally drives up interest rates, which would normally drive down P/Es (price-to-earnings ratios). However, if a company's earnings grow faster than its P/E goes down, the stock price should go up. (Obviously, if earnings do not grow faster than a declining P/E, the stock price should go down.)

To learn more about how we price the markets, refer to Ron's essay, Why the Market Went Down.

Are low interest rates pushing us toward a stock market bubble?

Currently, the Fed is buying $85 billion of Treasury and mortgage bonds each month to put downward pressure on borrowing costs. This has had an effect: first, it's achieved the intended purpose of keeping interest rates low; second, it has bolstered the stock market—all that money has to go someplace. But evidence that low interest rates have helped the economy is much harder to find.

Specifically, low interest rates encourage people who manage hedge funds to borrow and to buy securities, commodities, and other financial instruments—which, in fact, the Federal Reserve is encouraging. The Fed wants to get the stock market up! Remember, you can lift the stock market for a period of time by feeding it money, but, sooner or later, it responds to the underlying values of the companies represented by the stock.

Because we think stock prices are fair—and that the market will be driven as much by the Fed and investor psychology as anything else—we're trying to be more nimble. We're a little quicker to sell; we're a little quicker to raise cash.

Is it good stewardship of U.S. resources for companies to export natural gas?

Crude oil has long been transported by ocean tankers, making a global market possible. Natural gas is more difficult to transport because it must be liquefied for tanker transportation and then re-gasified for pipeline delivery somewhere else. (Currently, North Dakota captures and sells roughly 70% of the natural gas it produces and flares the remaining 30% because it doesn't have the pipeline infrastructure.) The cost of liquefying/transporting and re-gasifying is on the order of $6 per thousand cubic feet (MCF)—on top of the price of natural gas at $4 per MCF.

Some industry leaders, including T. Boone Pickens (Founder of BP Capital) and Andrew Liveris (CEO of Dow Chemical Company), have spoken out against exporting. We think they're being short-sighted; they already benefit from saving $6 per MCF on the transport. We think a global market for natural gas could materialize in about five years as more tankers and terminals move natural gas between markets and continents. So far, our federal government has approved two natural gas export terminals on the Gulf Coast; twenty more applications are pending. Canada, Australia, and East Africa are also among the places seeking to export natural gas to markets like Japan (where prices are $14-$15 per MCF) and Europe (where prices are $10-$12 per MCF).

"There are ample domestic supplies of natural gas to meet future demand without significant price increases," the Bipartisan Policy Center[2] wrote in its May 20, 2013

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[2] *Founded in 2007 by former Senate Majority Leaders Howard Baker, Tom Daschle, Bob Dole, and George Mitchell, the Bipartisan Policy Center is a non-profit organization that drives principled solutions through rigorous analysis, reasoned negotiation, and respectful dialogue.*

Ask Muhlenkamp

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report. While it's clearly a wait-and-see situation, we think higher production rates can accommodate foreign demand without negatively affecting domestic prices because of the technology-led energy boom.

For more about our thoughts on natural gas, please see the question/response within the "About the markets…" section of this article.

To learn more about Ron's thoughts on the stewardship of U.S. companies, please refer to Ron's essay, How We Benefit from Free Trade.

About the Markets…

You've stated that commodities are leveling off; i.e. they are not a 'good buy.' Is this true of gold and silver, too?

With China making a push toward more consumer spending and less infrastructure spending, along with Europe slowing down and the relative strength of the U.S. dollar, commodity prices have come down. This applies to all commodities, all the way from steel to copper—basically the hard commodities—and, lately, gold along with that. (Actually, gold has been declining for the past 18 months. The trouble with gold and silver is that they're "half religion." Some people buy them for non-economic reasons.) As a result, we do not own any material stocks or basic material stocks.

Have you identified a theme or trend on which you are focusing?

There are two areas where we are bullish: natural gas and biomedical technology.

1. Natural Gas
The price of energy in this country is coming down big time, driven partly by natural gas, but also by horizontal drilling for crude oil in North Dakota. (We think there's a decent shot, within five or ten years, of cutting the cost of energy in this country in half.)

Natural gas is selling on a British Thermal Unit (Btu) basis at about one-third of where crude oil is selling. We think the price of natural gas stays about where it is at $4 per million Btu because it's profitable for many gas fields. It should also be profitable for a whole lot of companies to convert from using crude, diesel, and gasoline to using natural gas at these prices.

We think the next area of opportunity is in transportation, particularly over-the-road trucking. We've invested in companies that drill for the natural gas and those that service them. We're also invested in companies that modify truck engines to burn natural gas, as well as companies that are building and supplying the fueling stations.

2. Biomedical Technology
Advancements in biomedical technology are changing how we provide healthcare in the U.S. While in the early innings, the healthcare industry is evolving from the traditional model of going to the doctor to diagnose our symptoms and treat our illness, toward a model of screening, prevention, and early intervention; i.e. personalized medicine based on one's genetic makeup.

The healthcare industry is getting better at understanding the causes of disease—and using that knowledge to not only improve treatments, but to identify those individuals more at risk.

We've invested in companies that bring innovative genetic testing to the field of medicine, allowing earlier diagnosis, prevention, and treatment, along with companies that are working to develop biopharmacologic medicines to more effectively treat cancers and viruses, two growing areas of biotechnology. …And we think the long-term return potential is significant.

Has your stock selection process changed over time?

Our stock selection process continues to be "bottom-up" and we remain steadfast in our pursuit of owning good companies at cheap prices. Once we have identified companies that meet our selection criteria, we edit from the "top-down," applying our macroeconomic lens. Here's an example:

We had identified a number of large banks selling at very attractive prices, but had held off purchasing them because of their exposure to European banks. When the Outright Monetary Transactions (OMT) program was announced back in September 2012, we concluded the likelihood of a European banking crisis had receded. We decided it made sense to own the banks we had identified at cheap prices, so we invested. So far, those investments have worked out very well for us.

Our portfolio is now dominated by large, U.S.-based companies that we believe have rock-solid balance sheets and strong free cash flows—companies we believe can survive a period of lackluster earnings, should that take place. For some of the companies we own, the dividend yield is better than the bond yield of the company. We like financials; we believe natural gas-related companies have great potential; and we think biotechnology companies are singing.

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

Glossary

Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Nikkei Stock Average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225. One may not invest directly in an index.

Free Cash Flow is a measure of financial performance calculated as operating cash flow minus capital expenditure. It represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

Book Value (BV) or "Book" equals total assets minus total liabilities. It is the owner's equity in the business, often quoted as Book Value/Share.

Price to Earnings Ratio (P/E) is a valuation ratio of a company's current share price compared to its per-share earnings.

Learning the Difference between Price and Value: Take Your Child to an Auction

by Kathy Baum, Client Service Regional Manager

This article was originally published in ***In Community*** *Magazine; Summer 2013.*

With the popularity of television entertainment such as *Pawn Stars*, *Antiques Roadshow*, and *American Pickers*, there is ample opportunity to observe the difference between establishing a value and the price someone is willing to pay for an item. The value of what may be considered a "collectible" (either through sentiment or fad) may not be substantiated by its price.

With summer in our midst, why not take the opportunity to turn off the tube, get outside, and experience this phenomenon first hand? There is no better place to learn the difference than by participating at an auction! If you are unfamiliar with locating auctions, they are usually listed in the classified sections of your local newspaper.

Once you arrive at a live auction, get ready to participate. You must register so you can get a bidder's number (without this number, you will not be allowed to bid.) Then you (and everyone else) have the opportunity to preview and inspect the items for sale prior to bidding. This is the time when everyone determines what they would like to buy and what value they place on the item.

Then, the game begins! There is usually a minimum ask price that the auctioneer uses to begin the sale of an item. Each bidder raises their bidder's number if they want the item and are willing to pay the price then quoted by the auctioneer. The bidding war continues as the auctioneer keeps increasing the price of the item until all bidders drop out but one. These bidders usually drop out because the asking price of the item increases to an amount that is more than the value they had previously determined. The winning bidder is the one who is willing to pay the highest price for the item. The item is sold once the auctioneer accepts the final bid (market value).

For example, if your child sees a toy car at an auction and decides it is worth $5 (and you agree), then he would be willing to pay up to $5 for it. If the bidding starts at $1 and reaches a final bid price of $3, it doesn't mean your child would now value the car at $3, but it does make it likely that he is the one making the winning bid. With the final bid price of $3, it would be worth buying the toy car at that price, since it is below the value your child determined. Just hope that there isn't another child at the auction that wants the car and values it at $6. The outcome could be much different.

Attending an auction will provide you and your child a great example of where price and value are not necessarily one and the same. (And for those interested in teaching their children about investing, there is no better place to learn about how the stock market works than by participating at an auction!)

Here are some of the fundamental lessons from attending an auction:

1. Understanding that price and value are not always one and the same.

2. Practice Discipline— Set a limit on how much you are willing to pay for any item, and stick to it.

3. Understanding "Supply versus Demand"—The number of available items for sale and the number of interested bidders in attendance make a difference on an item's price.

4. Help your children to understand how to structure their spending so that they determine a maximum dollar amount that they are willing to pay for something they want.

The "FRIDAY FOCUS" on Retirement

by Susen Friday, 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*

A Primer on IRAs

History
Individual Retirement Accounts (IRAs) were originally known as Individual Retirement Arrangements. The concept was launched in 1974 with the passage of the Employee Retirement Income Security Act (ERISA), the same legislation that created qualified plans; refer to 'Memorandum #106. The idea was to make some sort of retirement savings vehicle available to those workers not covered by a qualified pension plan.

The first IRAs allowed annual contributions of up to 15% of pay, or a maximum of $1500, and were tax deductible for the year the contributions were made. Additionally, any earnings in the account accumulated tax free until withdrawal. In order to encourage the use of these accounts to be primarily for retirement, ERISA established a penalty of 10% on any withdrawals prior to age 59½ years. Furthermore, the IRA account holder must take Required Minimum Distributions (RMDs) at the age of 70½ years. (If for some reason these distributions are not taken, the penalty is stiff: a 50% excise tax.) The first institutions to offer IRAs were banks.

The Economic Recovery Tax Act (ERTA) of 1981 made IRAs available to anyone with earnings, even if they were already enrolled in a company-sponsored pension plan. This legislation also allowed the contribution of $250 for a spouse without earned income. Contributions were increased to either 100% of pay, or a maximum of $2,000.

The Tax Reform Act of 1986 reversed the open eligibility back to the ERISA mandate. Only those (or their spouse) not participating in a qualified plan could make tax-deductible contributions to an IRA and income restrictions were added. People who were no longer eligible, however, could make nondeductible contributions.

The Taxpayer Relief Act of 1997 raised income limits of those covered by an employer plan and included spouses who had previously been excluded from making contributions. The biggest change, however, was the creation of the Roth IRA.

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 not only increased the maximum contribution to both types of IRAs, but introduced catch-up contributions for those age 50 years or older.

As you can see, Individual Retirement Accounts, like qualified plans, are always changing and developing.

Traditional IRAs
One can make both tax-deductible and non-deductible contributions to a Traditional IRA. Sometimes a single contribution is split between the two as a result of income limits. Keep very careful records if you choose to do this as a lot of confusion can result when withdrawals are made and taxes calculated. Some monies will be taxed and some will not. I have found that a simple way of avoiding this problem is to have a standalone, separate IRA for non-deductible contributions. That way I know that only the earnings portion of withdrawals from that particular account will be taxed, not the contributions portion.

The Traditional IRA has also become the depository of qualified plan distributions. Regardless of whether a participant retires or leaves a company for reasons other than retirement, a Traditional IRA provides a place where they can deposit their proceeds which can continue to grow tax deferred.

Plan assets can be "rolled over" to an IRA by one of two ways:
1. The participant can receive a check and deposit it into an IRA within 60 days before the IRS considers it a taxable distribution. At this point, the plan is required to withhold 20% for taxes.
2. Have the plan roll the assets directly into an established IRA account. (This direct method is by far the cleanest way of transferring assets without worrying if the 60-day time limit will be met.)

A Traditional IRA is also a way to pass along tax-deferred assets to beneficiaries for generations (as long as the account is not needed to pay an estate tax). This is one of the most important reasons to review and revise the beneficiaries on the account regularly. Following the death of the account owner, the rules are different for spouse and non-spouse beneficiaries:

1. If the beneficiary is the spouse, they can re-title the account as their own, roll it into an already-established IRA or other qualified plan, or consider themselves a beneficiary. Note: If the spouse is treated as a beneficiary, RMDs will begin by December 31 of the calendar year in which the account owner (i.e. the deceased) turned 70½.
2. If the beneficiary is not the spouse, he/she cannot treat it as their own, so they are unable to make any additional contributions to the account or roll any amounts into or out of the account. The account must be re-titled to read John Doe, Deceased (date of death) IRA F/B/O (for benefit of) Charles Doe, Beneficiary. The first RMD must be taken by December 31 in the year following the death. Subsequent RMDs will be based on the life expectancy of the beneficiary.

Roth IRAs

Contributions to Roth IRAs consist of after-tax monies; they grow tax free and are not taxed at distribution. A Roth IRA is well-suited for individuals who think their taxes will be higher when they retire, or would prefer having a piece of their retirement funds distributed to them tax free.

There are limits on modified adjusted gross income (MAGI), above which one is not eligible to contribute to a Roth IRA. While the MAGI limit can change from year to year, Roth IRAs have the same contribution and catch-up rules as Traditional IRAs. Note: If one contributes to both types of IRAs, the overall limit applies. For 2013, both accounts would have to total $5500 in any combination; $6500 if you are 50 or older.

While RMDs do not apply to Roth IRAs, there are certain rules for distributions:

1. At age 59½, a qualified distribution can be made after five years have elapsed since the first contribution to the account.
2. A qualified distribution can be made as the result of disability.
3. A qualified distribution can be made to a beneficiary after the account holder's death. When an account holder dies and the beneficiary is the spouse, the spouse can combine it with another Roth IRA and treat it as their own. If the beneficiary is not a spouse, the inherited Roth IRA can be distributed tax free in one of two ways:
   - The entire amount can be distributed over a period of five years ending December 31 of the fifth year.
   - Take RMDs based on the beneficiary's life expectancy. (The beneficiary can, in turn, pass it on to another beneficiary, making it a great way of providing untaxed benefits to several generations.)

Traditional IRAs or 401(k) distributions can be converted to a Roth IRA. When tax deductible contributions or earnings are converted, the amount is added to the account holder's gross income and taxed accordingly. In order to minimize the tax, a conversion can be done over a period of several years. We suggest meeting with a tax professional prior to doing a conversion to make sure it is in the account holder's best interest. Note: Roth 401(k) accounts can be rolled into an established or new Roth IRA, but special rules apply.

Conclusion

IRAs are a very important tool in saving for retirement. They are a great way to encourage young people with a part-time job to get in the habit of putting some money away for retirement. In general, anyone with earned income can open an IRA account. Note: Some institutions impose age restrictions.

As with qualified plans, they are a dynamic creation where rules, eligibility limits, and contribution limits can change with new legislation.

More detailed information regarding IRAs can be found in IRS Publication 590 (http://www.irs.gov/pub/irs-pdf/p590.pdf). If you have any specific questions regarding IRA accounts, please feel free to contact our Client Service Department at (877) 935-5520 extension 4.

2013 IRA Contributions

Traditional and Roth IRA contribution limits for 2013 are the lesser of $5,500 ($6,500 if you are age 50 years or older), or 100% of your earned income.

Traditional IRA MAGI Limits

Individuals filing as single or head of household who are covered by a retirement plan at work may deduct contributions to a Traditional IRA:

- Fully—if their Modified Adjusted Gross Income (MAGI) is less than $59,000; ($95,000 if filing a joint return); or
- Partially—if their MAGI is between $59,000 and $69,000; ($95,000 and $115,000, if filing a joint return).

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The "FRIDAY FOCUS" on Retirement

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Individuals filing as single or head of household who are covered by a retirement plan at work with a MAGI of $69,000 or more ($115,000 or more if filing a joint return) cannot deduct contributions to a Traditional IRA.

Individuals either living with a spouse or filing a joint return who are not covered by a retirement plan at work— but whose spouse is—can deduct contributions to a Traditional IRA:

- Fully—if their MAGI is less than $178,000; or
- Partially—if their MAGI is between $178,000 and $188,000.

Individuals either living with a spouse or filing a joint return who are not covered by a retirement plan at work—but whose spouse is—with a MAGI of $188,000 or more cannot deduct contributions to a Traditional IRA.

Roth IRA MAGI Limits
Individuals filing as single or head of household may fund a Roth IRA:

- Fully—if their MAGI is less than $112,000; ($178,000 if filing a joint return); or
- Partially—if their MAGI is between $112,000 and $127,000; ($178,000 and $188,000, if filing a joint return).

Individuals filing as single or head of household with a MAGI of $127,000 or more ($188,000 or more, if filing a joint return) cannot make a Roth IRA contribution.

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. Neither the Fund nor any of its representatives may give legal or tax advice.

Announcements

KHAN Academy

One of our favorite Internet sites is *khanacademy.org* with hundreds of online teaching videos on everything from arithmetic and physics to art history and the history of the Industrial Revolution.

The people behind this website are on a mission to help you learn what you want, when you want. Learners of all ages can benefit! We urge you to check out this site and spread the word.

Request for Email Address

To ensure you receive all of the correspondence that Muhlenkamp & Company publishes and distributes, please share your email address with us. From time to time, we publish information that gets distributed by email only. If you would like to be added to our email list, please visit our website at www.muhlenkamp.com. On the 'home page,' you'll find a link where directions are provided, or give us a call at (877) 935-5520 extension 4. You can be assured that your contact information will not be released to any nonaffiliated third party.

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MuhlenkampMemorandum

Inside this issue:

May 21, 2013 Investment Seminar:
Archive available at www.muhlenkamp.com.

The Big Squeeze: How taxes are squeezing your income; how interest rates are squeezing your assets