MuhlenkampMemorandum

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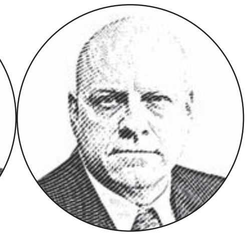
Quarterly Letter



By Ron Muhlenkamp and Jeff Muhlenkamp, Co-Managers

At the end of the third quarter the U.S. economy is by most indicators in good shape. Real (inflation adjusted) GDP growth the first two quarters averaged 3% and forecasts are for the full year to come in at about 3%. Small business and consumer sentiment indicators are at high levels. Unemployment is quite low and most credit metrics are looking fine. Companies are bringing overseas cash back home and are, in general, doing three things with it: investing in their business, sharing it with employees, and sharing it with owners (the mix varying a bit by company). If you are looking for reasons to be optimistic the domestic economy provides plenty of them.

There are also some reasons to worry (there always are). Domestically, the worries center on inflation (which is approaching 3%) and rising short-term interest rates. Long-term interest rates haven't really done much all year, which is somewhat surprising given good economic growth and 3% inflation. Rising short-term interest rates are being driven by the Federal Reserve which kept the Federal Funds Rate near zero from 2009 until 2015 and is now steadily raising that rate to get back to what they consider "normal." There are two problems with this: no one is quite sure what "normal" is anymore (more precisely, the interest rate that neither spurs nor retards economic growth—a neutral rate) and there is the distinct possibility that some businesses have become accustomed to very low interest rates and will not survive in a higher-rate environment. So the Fed is feeling its way along, slowly raising the Federal Funds Rate and reducing the assets they hold, hoping they don't disrupt economic growth. Higher inflation will put the Federal Reserve on the horns of a dilemma, which is why it is a worry. The Federal Reserve has a target of 2% inflation, which we are now above. At some inflation level the Fed will feel compelled to raise rates more rapidly to fight inflation which would increase the odds of slowing the economy and would be negative for asset markets. So it is entirely possible that, despite their best intentions, the Federal Reserve's monetary policy either creates problems in an economy dependent on cheap credit, or spurs higher inflation first, then chokes the economy to curb the inflation they stoked. Currently we have 3% real economic growth and 3% inflation—so far so good.

Internationally, we find more reasons for worry than reasons for optimism. First, the strong dollar is creating problems for countries that borrowed a lot of dollars. This has exacerbated existing problems in a number of countries and we've seen their currencies plummet, most notably Argentina and Turkey. The potential exists for them to default on their dollar denominated loans which would impair the banks and others that lent them the money. At the extreme, those defaults could ripple through the international banking system and create a wider problem. That's not what we expect to happen, but we are watching for the early warning signs that something like that is occurring.

Second, on a global basis, monetary policy continues to move back towards normal as central banks end their extraordinary policies. You may recall that the central banks of the U.S., Europe, and Japan all dropped interest rates to essentially zero and implemented asset buying programs in order to spur economic growth and generate inflation. The U.S. Federal Reserve was the first to start moving back towards normal by ending their asset purchase program in 2014, raising short-term rates beginning in 2015, and reducing their assets beginning in 2017. The European Central Bank (ECB) is the second major central bank to move back towards normal. The ECB has announced it will end its asset purchase program in December 2018 and will look to begin raising rates perhaps in mid to late 2019. We think this will allow interest rates in Europe to rise which will reduce upward pressure on the dollar and create downward pressure on U.S. long-term interest rates. This is a big step towards tighter money on a global basis.

We think the loose central bank policies inflated pretty much all asset prices around the world. Additionally, all kinds of borrowers have taken advantage of the abundance of cheap money—countries,

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Announcements

Register for our Upcoming Webcast
Please join us for our webcast with Tony, Ron, and Jeff Muhlenkamp.

Thursday, November 15, 2018
4:00 pm – 5:00 pm ET

Register at www.muhlenkamp.com or call us at (877)935-5520 extension 4.

Webcast Archive Available
During the webcast on August 30, 2018, Ron and Jeff Muhlenkamp updated participants on the changes in the economic indicators that they monitor and the potential threats and improvements to the U.S. economy and asset markets. Visit www.muhlenkamp.com for the webcast archive and to access other videos and essays available in our Library collection.

Muhlenkamp & Company, Inc.
Intelligent Investment Management

Don’t Let Financial Fraud Happen To You

By Michelle Baker Orphall, Marketing Specialist

In the good old days, scammers could only reach you face to face, by mail, or by phone. Now, they can also attempt to deceive you through email and on the Internet. Unfortunately, you always have to be on guard. Being aware of the most common schemes can help prevent you from becoming the next victim of their deception.

Fraud via Phone

With advances in technology, scammers can now make it look like they are calling from a local phone number when they are really calling from across the country or another part of the world. Beware of unsolicited calls, especially if the person is asking you to act immediately and keep things confidential. If something about a phone call makes you feel uncomfortable (a “red flag” goes up), ask the caller for their number and let them know that you will call them back. Do not give out information if they ask you to wire money or give them your bank or credit card number, expiration dates, SSN, or other confidential information. Share your suspicions with a trusted family member or friend. Sometimes things look clearer from the outside and your friend or family member can coach you through the situation. If your friend agrees that it’s a scam, don’t contact the scammer. If the scammer calls you again, hang up.

Be wary of “free prizes” or “no-risk” offers—if it sounds too good to be true, it probably is. One common phone scam is a call offering a “free medical alert system.” This hoax makes it sound as if your doctor or loved one signed you up or that the company deems you eligible for a free system. The scammers try to obtain your bank account number or credit card information to pay for “delivery” or “low monthly monitoring fees.” Chances are you won’t ever receive the medical alert system, but you will be charged the fee and additional money could be taken from your account.

Sometimes scammers pretend to be someone helping you. They might say that they are from your bank, your credit card company, or they are computer maintenance, etc. and they received an alert that there was a problem and they can help you fix it. Don’t give out any personal information to “verify” your account. If it is really the legitimate company, they should be able to provide you with your name and account information. If you want to investigate whether there really is an issue with your account, always go back to your account paperwork to get the official phone number. One example of a scam in which someone is trying to “help” is the Microsoft computer support scam notifying you that your computer has a virus or other issue. It is a fake tech support scam, so hang up before they try to convince you to download a program on your computer which would give them remote access to your computer. Or they might try to convince you to pay them to remove a virus or buy anti-virus protection software.

Fraud via Email and Websites

Sometimes you can be bombarded with emails—some from people you know, some from legitimate businesses, and, unfortunately, many from those trying to fool you. Don’t open any attachments in emails from people you don’t know. Those attachments may carry viruses that can infect your computer.

If you think the email is spam (unsolicited or undesirable email), don’t even open it because opening it registers your address as a legitimate email address and your address may be sold to other spammers. These days, you should even be wary of emails with attachments from people you do know, since their email address could have been hijacked and could include attachments containing a computer virus or a request to wire money. If the email from someone you know looks like it’s a topic or message that you wouldn’t expect from them, don’t open it until you verify with the sender that it’s a safe email and something they actually sent.

“Phishing” scams can involve the scammer creating a fake website that mimics an official website. Scammers would send you an email with a link to the fake website. If you try to sign into this website, you are providing the scammer with your ID and password that they could then use to access your account via the real website. So, always be aware of website addresses—look carefully to make sure it’s the official site. The website should be spelled exactly the same way as the official site, with no extra letters or different endings. A website ending in “.com” is different than one ending in ”.gov,” “.net,” or “.org.” The previous domain codes (URL extensions) are those common in the U.S. There are many other domain codes for those originating in foreign countries. Website addresses that are not the exact addresses could be a fake website created to deceive you. You could come across these fake sites via email or even when you are searching the Internet.

By hovering over links in emails or on webpages, you can check the link address to make sure it will take you to where it says it will take you. When you hover over linked text or photos, the actual underlying web address should show next to your cursor and may also show on the bottom left-hand side of your computer screen (the location depends on your device). Don’t click the link unless it looks legitimate. Sometimes there is long code if businesses use marketing software to track clicks, so it’s not always clear.

Many times these phishing scams are made by people overseas posing as a domestic business. Because of the language difference, translation often makes email messages seem a little off. If you receive an email that seems suspicious or there is poor grammar or misspellings, be suspicious.

If your computer locks up and you receive an alert that you have to pay a ransom to get it unlocked, turn your computer off right away. If the message is still there when you turn your computer back on and your computer is still locked up, don’t pay the fee and don't call the number on the ransomware message. Paying the ransom does not guarantee that your computer will be unlocked and you will probably never get the ransom money back. You probably clicked on an email attachment that had a ransomware virus attached or came across it on the Internet. A computer repair technician may be able to remove the ransomware virus to fix your computer.

If you use social media such as Facebook, Twitter or Instagram, tighten up your privacy settings to make sure your posts and profile are only shared with your "friends." You don't want the general public to be able to learn personal information about you that they could then use to pretend that they "know" you or your family.

Keep your passwords private and don't use a public computer when you enter personal information. Make sure the website is secure when you enter credit card or other account information. Secure webpages are indicated by "https" versus just "http" at the beginning of the web address as well as a graphic of a padlock..

What to do if you have fallen for a scam:

- Write down what you remember about the situation.
- Discuss what happened with a family member or friend.
- If you gave your bank account number to someone you believe tricked you, telephone your bank using the official number on your statement or visit the branch office in person. They can investigate and see if there was an attempt to take money from your account and/or help prevent any additional loss.
- If you gave your credit card number to someone and you suspect fraud, contact your credit card company. Always call the phone number on your statement. The scammer may give you a fake number. Review your statements monthly to make sure all the transactions look correct.
- You may want to report the incident to your local police.
- Don't be embarrassed, anyone can become a victim of a scam.

These are just a few fraud examples that we have come across. Unfortunately, thieves will try new schemes all of the time or variations of old ones. Just try to be vigilant when it comes to your financial and personal information.

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

Quarterly Letter

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companies, and individuals. We expect the withdrawal of that monetary support to exert downward pressure on asset prices and are concerned that some of those borrowers will not be able to support the debt they took on. It's a big shift and it will take time to unfold and time for the problems to become manifest, but we are four years into it with another big move coming. We think the plunging currencies of Turkey and Argentina are first of the problems that will unfold in this tighter monetary environment.

The above is really a reiteration of what we've been saying all year. A strong U.S. economy boosted by changes in the tax code and reduced regulations is a positive force in the markets. The shift from a very loose monetary environment to something less loose is a negative. We said at the beginning of the year that these two drivers (strong U.S. economy & the tightening of the money supply) would shape the markets in a fashion we couldn't predict.

In March, President Trump injected a wild card as he seeks to restructure the trading relationships between the U.S. and other countries. In general, the pattern seems to be for the U.S. to unilaterally levy tariffs on imports until we convince the other party to sit down and seriously bargain. Some countries came to the table after the first round of tariffs: Korea and Japan. Others came right back at us with their own tariff schemes for a round or two then sat down: Mexico, Canada, and the European Union. We have yet to get China to the bargaining table after what is, by my count, four rounds of tariffs and counter-tariffs. So far, the markets haven't reacted much to this activity, but the potential remains for global trade (and by extension global growth) to be significantly affected. So we've added "Trade" to our worry list and we're incorporating it in our thinking. We'll keep you posted.

So far this year, we've done more selling than buying and are holding a bit more cash than we were at the start of the year. This activity has been bottom up driven: a number of our holdings met our sell criteria and so were reduced or sold and the number of buying opportunities has been low. We are comfortable holding a little more cash given the change in the monetary environment and will put that cash to work when we find a lucrative opportunity.

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

Glossary

Central Bank is the entity responsible for overseeing the monetary system for a nation (or group of nations). The central banking system in the U.S. is known as the Federal Reserve (commonly referred to "the Fed"), composed of twelve regional Federal Reserve Banks located in major cities throughout the country. The main tasks of the Fed are to supervise and regulate banks, implement monetary policy by buying and selling U.S. Treasury bonds, and steer interest rates.

Federal Funds Rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. It is the interest rate banks charge each other for loans.

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

Muhlenkamp & Company, Inc.
Intelligent Investment Management

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Inside this issue:

- Quarterly Letter
- Don’t Let Financial Fraud Happen To You
- Announcements

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MuhlenkampSMA All-Cap Value

For the period ended 9/30/18

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.

Muhlenkamp & Company, Inc.
Intelligent Investment Management

All-Cap Value Composite Performance (Net of Fees)

			Annualized			
	Year to Date	**One Year**	**Past 3 Years**	**Past 5 Years**	**Past 10 Years**	**Past 15 Years**
Return	-2.21%	1.12%	3.78%	4.01	5.23%	4.48%
S&P 500 Total Return*	10.56%	17.91%	17.31%	13.95%	11.97%	9.65%
Consumer Price Index**	2.28%	2.70%	1.90%	1.52%	1.42%	2.10%

* **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 August 2018 – 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
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	6.07%
Alliance Data Systems Corporation	IT Services	5.00%
Microsoft Corporation	Software	4.47%
UnitedHealth Group Inc.	Healthcare Providers & Services	4.02%
Express Scripts Holding Company	Healthcare Providers & Services	3.88%
Celanese Corporation - Series A	Chemicals	3.41%
Gilead Sciences, Inc.	Biotechnology	3.28%
Microchip Technology	Semiconductors & Semiconductor Equipment	3.09%
DowDuPont, Inc.	Chemicals	2.95%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.93%
Invesco Buyback Achievers	Exchange Traded Funds	2.85%
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.83%
AutoZone, Inc.	Specialty Retail	2.73%
Biogen Idec Inc.	Biotechnology	2.59%
McKesson Corporation	Health Care Providers & Services	2.56%
Alerian MLP ETF	Exchange Traded Funds	2.52%
Cognizant Technology Solutions Corp.	IT Services	2.43%
SPDR Gold Shares	Exchange Traded Funds	2.37%
Acuity Brands Inc.	Electrical Equipment	2.26%
Celgene Corp Com	Biotechnology	2.23%

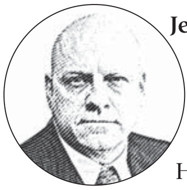
Composite holdings are subject to change and are not recommendations to buy or sell any security.

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 Managers

Ronald H. Muhlenkamp, Portfolio Manager, CFA, has been active in professional investment management since 1968. He is a graduate of both M.I.T. and the Harvard Business School.



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.

SMA Facts

Average Number of Equity Holdings	25
Cash & Cash Equivalents	23.92%
Portfolio Turnover	18.17%‡

‡ *Trailing 12 months*

SMA Facts are presented as supplemental information.

SMA Information

The All-Cap Value Composite was created in December 2003 and includes fee-paying accounts over $100,000, full discretion, under management for at least one full quarter 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.*

Investment Adviser

Muhlenkamp & Company, Inc.
5000 Stonewood Drive, Suite 300
Wexford, PA 15090-8395
(877)935-5520
services@muhlenkamp.com

www.muhlenkamp.com

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 Composite Gross	Composite Net	S&P 500 Total Return Index	THREE-YEAR ANNUALIZED STANDARD DEVIATION* Composite	S&P 500 Total Return Index	Composite Dispersion**
2017	342	40	53	15.24	14.30	21.83	8.70	9.92	2.14
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
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

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 December 31, 2017 by ACA Performance Services, LLC.

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, 2017. 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.

Returns 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.

* **Three-Year Annualized 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 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.*