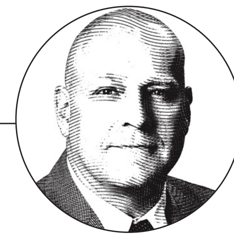
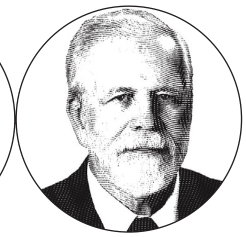
MuhlenkampMemorandum

Issue 132 | Published Fourth Quarter | October 2019

Quarterly Letter





By Jeff Muhlenkamp, Portfolio Manager and Ron Muhlenkamp, Founder

It's been a noisy summer. Lots of political news, lots of tariff and trade war news, lots of international headlines of various sorts. Funny thing though, as we write this note during the last week of September the S&P 500 Index is within three percent of the all-time high it set in July. By that measure, it's been a quiet summer.

If we filter out the noise, what are the important things going on today, economically, financially, and politically? Here's what we observe:

1. The reset in trade relations between the U.S. and China is still being negotiated. Some of the tariffs announced over the last year have actually taken effect, others have been delayed. At this time, we hesitate to predict when a comprehensive agreement might be reached and are assuming the negotiations continue for the foreseeable future with the accompanying noise.

2. The renegotiation of the relationship between the United Kingdom and the European Union (EU) is ongoing. Despite a new Prime Minister (Boris Johnson) in the United Kingdom and an October 31st deadline, this doesn't look like it will be resolved any time soon either. We are likewise loath to predict the eventual outcome of this debate or to estimate the timeline. It seems that investors have reached a similar conclusion as news on this topic hasn't impacted markets lately.

3. Germany is very near, or already in, a recession. Slowing growth in China is having a magnified effect on Germany—which supplies China with capital and luxury goods. As the biggest economy in the EU, a German recession could hurt a lot and increase the risks to financial markets presented by weak European banks. We don't think we've seen the full impact of this yet.

4. U.S. treasury yields plunged in August, setting new lows for the 10-year and 30-year, inverting the yield curve (when short-term rates are higher than long-term rates), prompting the Federal Reserve to end their balance sheet reduction program ahead of schedule and to cut the Federal Funds Rate (short- term interest rates that they control) twice: by .25% in August and by .25% again in September. Recall that the Federal Reserve raised the Federal Funds Rate by .25% in December 2018—they have very quickly reversed themselves. An inverted yield curve has historically been the harbinger of recessions in the United States, with a lag of between 6 and 18 months. Historically, the yield curve typically inverts when the Federal Reserve raises short-term rates above long-term rates in a deliberate effort to slow the economy and contain inflation—that's not the case this time. The Federal Reserve is not trying to fight inflation and was trying to restore short-term rates to something they consider "normal". Long-term rates dropped below short-term rates, surprising the Fed (in our opinion). We hesitate to say "this time is different" with regard to a yield curve inversion as that is usually a dangerous statement to make, but things are a little different this time and it is at least possible that the outcome will be different as well.

5. Inflation remains low. The U.S. Consumer Price Index (CPI) shows 1.7% year-over-year inflation at its latest reading. Recall that the Federal Reserve's goal is inflation of 2%—thus the above statement that they are not raising rates to contain inflation—inflation is actually lower than their target.

6. The industrial growth is slowing in the U.S. and globally (see German recession above). In the U.S. this looks a lot like the slowdown we saw in late 2015 – early 2016. In fact, this is the third such slowdown since the last recession—the first was in late 2011. Neither of the

continued on page 3

Muhlenkamp & Company, Inc.
Intelligent Investment Management

Letter to My Daughters: On Money

By Tony Muhlenkamp, President

We talk about money a lot in our family, which is no surprise since the family business is helping people with their money so that they can enjoy financial independence and some freedom in how they live. And most of our conversations are practical and pragmatic in terms of how to earn money, how to invest it, how to support a philanthropy, how to fund an education, how to manage taxes, etc. When we talk about money, we rarely make any value judgements about it. In our family we just kind of assume that more money is better than less money, that it is a GOOD thing to think about and pay attention to.

But I've learned not everyone shares that idea; some people think it's not a polite topic of discussion, or is somehow dirty, or even the source of all the world's evils. So, I want to talk to you about money in terms of good and evil.

Is money the root of all evil, or good for the soul?

First of all, the entire quote from St. Paul's Letter to Timothy is "For the love of money is the root of all evil: which while some coveted after, they have erred from the faith, and pierced themselves through with many sorrows."(1 Timothy 6:10)

So the *love* of money (and of all the things that money can buy) is the root of all evil according to St. Paul, not money in and of itself. Having money is no more evil than not having money; neither is intrinsically good or bad. It's the *love* of money, the *lust* for all the things that money can buy that causes so much heartache and discontent and yes, sometimes outright evil. To see plenty of visual examples of what I mean, search the Internet for "Thanksgiving shopping riot videos."

If money isn't good or bad, what is it? What is money for? Many people seem to think that money is for buying things; for consumption of all the things money can buy. The term "consumerism" describes the preoccupation of buying more and more goods and the marketing that goes along with it. And, I think, this idea of consumerism encourages the love of money, but not the respect for money and what it can do.

We look at other significant uses of money beyond consumption. We know that things have to be produced before they can be consumed. Money can be used to build things, to create things, to produce better living conditions. We see money as the core source of prosperity. Prosperity has to be produced before it can be consumed; money can be for producing prosperity.

But that's not all. Money is good for the soul and useful in becoming virtuous. Think of what it takes to earn money. You have to do something someone else will pay you to do or produce a product that they want to buy; and that usually means they find what you do or produce useful and beneficial. Maybe you have a special talent they need, or maybe you're just willing to do the dirty, boring, smelly jobs they don't want to do anymore. But either way, what you do is useful to other people; you have a product, skill, or an attitude that you can develop and improve on and grow. And I believe the best and longest lasting source of self-esteem comes from doing things other people find useful. And how do you know you are useful? They pay you! Money is the medium of exchange for providing a good or service. Earning money builds work ethic and self-esteem. Those are virtuous qualities.

And once you've earned a buck, you can save a dime (or better yet, a quarter…☺). Saving money takes patience, discipline, and the ability to defer gratification; to suffer some hardship today for the sake of better things in the future. It takes humility and self-esteem to drive used cars, pack your own lunch, take staycations, and live in small homes while your friends and neighbors drive new cars, eat out every day, go on fabulous trips, and live in mansions. Patience, discipline, humility, and self-esteem are all good qualities to have.

And saving money leads to investing money to build things, which you can do yourself or hire someone to do for you. Either way, investing money requires planning, and goal setting, and people smarts. It encourages you to learn the basics of accounting and finance. It requires focus and mental clarity and the ability to integrate thought AND emotion into your decision making. All very useful skills.

And finally, having money carries the responsibility to maintain the assets

MuhlenkampMemorandum is a quarterly information service of Muhlenkamp & Company, Inc. ©2019

you've built and to keep them productive. It requires knowledge of tax law, and encourages stewardship and thoughtful deliberation about what is important to you and why so that you use the money in ways that are meaningful and helpful to you and to others. You have to learn how to earn, save, give, and invest and handle all the responsibilities that go along with having money.

Now is a good time for you to start thinking about saving and investing, and I'm happy to help you with that if I can. Just let me know.

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

Letter

Continued from page 1

first two resulted in a recession. If the availability of credit drops (we're not seeing this now) or the service side of the economy slows down as well (the signals here are mixed), we could be looking at a recession in the near future.

Looking forward, it's not a stretch to suggest that political actors will increasingly attempt to sway voters with their actions, and market participants will factor into their forecasts the likelihood of policy change. Does that mean President Trump will look for a "win" with China timed to help him in the '20 election? Very possibly. Has the recent weakness in Healthcare and Energy been due to the emergence of Senator Warren as the Democratic frontrunner? Also possible. What we believe is certain is that investors like us will do their best to anticipate the outcome of the election and position their portfolios accordingly.

We remain reasonably defensive in our holdings and continue to evaluate them on an individual basis—selling when full value is reached, buying what we view as undervalued. In general, we are not adding companies that we consider particularly sensitive to the economic cycle because we haven't seen indicators of the slowdown begin to improve and frankly most "cyclical" companies aren't priced for a recession. We'll be patient.

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

Consumer Price Index (CPI) measures the prices of consumer goods and services purchased by households. CPI is used as a measure of price inflation.

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. *You cannot invest directly in an index.*

Announcements

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

Wednesday, December 11, 2019
4:00 p.m. – 5:00 p.m. ET

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

Webcast Archive Available
During our August 29, 2019 webcast, Ron and Jeff Muhlenkamp examined some financial indicators to determine the overall health of the economy. In terms that we can all understand, they explained each chart, slide by slide, looking at both causes and symptoms of conditions that can lead to growth or decline. Visit www.muhlenkamp.com for the webcast archive and to access other videos and essays available in our Library collection.

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 or call us at (877) 935-5520. Your contact information will not be released to any third party.

Muhlenkamp & Company, Inc.
Intelligent Investment Management

MuhlenkampMemorandum

Inside this issue:
- Quarterly Letter
- Letter to My Daughters: On Money
- Announcements

Upcoming Webcast

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

Wednesday, December 11, 2019
4:00 pm – 5:00 pm ET

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

MuhlenkampSMA All-Cap Value

For the period ended 9/30/2019

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)

			Annualized			
	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	7.16%	-4.06%	2.60%	0.13	5.01%	2.62%
S&P 500 Total Return*	20.55%	4.25%	13.40%	10.84%	13.24%	9.01%
Consumer Price Index**	2.12%	1.75%	2.13%	1.53%	1.74%	2.04%

* **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 2019 – 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
Microsoft Corporation	Software	5.56%
Apple Computer Inc.	Technology Hardware, Storage & Peripherals	5.11%
Microchip Technology Inc.	Semiconductors & Semiconductor Equipment	3.76%
SPDR Gold Shares	Exchange Traded Funds	3.34%
Meritage Homes Corp.	Household Durables	3.14%
McKesson Corporation	Health Care Providers & Services	3.05%
Berkshire Hathaway Class B	Diversified Financial Services	3.05%
Lockheed Martin Corp.	Aerospace & Defense	2.99%
CVS Health Corp.	Health Care Providers & Services	2.98%
Alerian MLP ETF	Exchange Traded Funds	2.96%
Invesco Buyback Achievers	Exchange Traded Funds	2.96%
Alliance Data Systems Corporation	IT Services	2.91%
Gilead Sciences, Inc.	Biotechnology	2.87%
Broadcom Inc.	Semiconductors & Semiconductor Equipment	2.80%
Annaly Capital Management Inc.	Mortgage Real Estate Investment Trusts	2.75%
Celgene Corp.	Biotechnology	2.69%
Cameco Corporation	Oil, Gas, & Consumable Fuels	2.60%
Acuity Brands Inc.	Electrical Equipment	2.07%
Cognizant Technology Solutions Corp.	IT Services	2.05%
Biogen Inc.	Biotechnology	1.82%

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).

M

Muhlenkamp & Company, Inc.
Intelligent Investment Management

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.

SMA Facts

Average Number of Equity Holdings	30
Cash & Cash Equivalents	23.46%
Portfolio Turnover	20.02%‡

‡ *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

				ANNUAL PERFORMANCE			THREE-YEAR ANNUALIZED STANDARD DEVIATION*		
Year End	Total Firm Assets (USD) (millions)	Composite Assets (USD) (millions)	Number of Accounts	Composite Gross	Composite Net	S&P 500 Total Return Index	Composite	S&P 500 Total Return Index	Composite Dispersion**
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
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

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 March 31, 2019 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 March 31, 2019. 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.*