

Ron's Quarterly Letter

January 2014

We had a good year in 2013.

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

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

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

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

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

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

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

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



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

Muhlenkamp & Company, Inc.

FOR THE PERIOD ENDED 12/31/13

ALL-CAP VALUE COMPOSITE

Muhlenkamp & Company's All-Cap Value Composite includes all fee-paying accounts over \$100,000, full discretion, under management for at least one full quarter, which are invested in the all-cap style. The composite excludes the Muhlenkamp Fund and any wrap fee account.

OBJECTIVE

Maximize total return, consistent with reasonable risk.

STRATEGY

Invest 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).

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, Investment Analyst and Co-Manager, has been active in professional investment management since 2008. He is a graduate of both the United States Military Academy and Chapman University.

VESTED INTEREST

The majority of Ron Muhlenkamp's long-term investment assets are managed by Muhlenkamp & Company, by being invested in the Muhlenkamp Fund and as one of the Separately Managed Accounts of the Advisory firm. The majority of Jeff Muhlenkamp's long-term investment assets are invested in the Muhlenkamp Fund.

ALL-CAP VALUE COMPOSITE TOP TEN HOLDINGS

Company	Industry	% of Net Assets
Alliance Data Systems	IT Services	6.8
Celgene Corporation	Biotechnology	4.5
Hanes Brands Incorporated	Textiles, Apparel & Luxury Goods	4.3
Spirit Airlines Incorporated	Airlines	4.2
Delta Air Lines	Airlines	3.6
General Motors Company	Automobiles	3.5
Discover Financial Services	Consumer Finance	3.4
J.P. Morgan Chase & Company	Diversified Financial Services	3.4
State Street Corporation	Capital Markets	3.3
American International Group	Insurance	3.2

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

Composite Characteristics and Top Ten Holdings are presented as supplemental information to the fully compliant presentation on the next page.

ALL-CAP VALUE COMPOSITE PERFORMANCE (NET OF FEES) AS OF DECEMBER 31, 2013

Year-To-Date	Annualized				
	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
34.39%	34.39%	12.62%	13.96%	4.01%	4.52%

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.

INVESTMENT ADVISER

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ALL-CAP VALUE COMPOSITE FACTS

ROE	17.80% *
Long-Term Earnings Growth	14.12% *
Average P/E	19.87 *
Forward P/E	15.31 *
Portfolio Turnover	24.10% **

* Weighted averages using Bloomberg data as of 12/31/13

Note: Average ROE and P/E have been adjusted to provide a more meaningful valuation.

** Trailing 12 Months

Return on Equity (ROE) is a company's net income (earnings), divided by the owner's equity in the business (book value).

Long-Term Earnings Growth is not a forecast of the Composite's future performance.

Price-to-Earnings Ratio (P/E) is the current stock price, divided by the earnings per share.

Price-to-Earnings Ratio (Forward) or Estimated P/E is an estimate of the price-to-earnings (P/E) ratio where the earnings (E) are forecast or estimated future earnings for a company.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

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			THREE-YEAR ANNUALIZED STANDARD DEVIATION*		
				Composite Gross	Composite Net	S&P 500 Total Return Index	Composite	S&P 500 Total Return Index	Composite Dispersion**
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
2002	742	81	139	(19.80)	(20.49)	(22.06)			3.65
2001	699	97	124	(2.72)	(3.51)	(11.93)			5.16
2000	428	101	99	16.10	15.23	(9.10)			5.98
1999	297	100	110	5.15	4.32	21.04			10.82
1998	338	121	118	0.89	0.12	28.58			3.26

Muhlenkamp & Company's All-Cap Value Composite includes all fee-paying accounts over \$100,000, full discretion, under management for at least one full quarter, which are invested in the All-Cap style. The composite excludes the Muhlenkamp Fund and any wrap fee account. The objective of this All-Cap Value Composite is to maximize total 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 December 31, 2012 by Ashland Partners & Company LLP.

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, 2012. 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.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

Results 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.

The investment management fee schedule for the Composite is 1% on the first \$1 million, and 0.5% on the remainder. Actual investment advisory fees incurred by clients may vary.

The All-Cap Value Composite was created in November, 1978.

* **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 tradeable 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.