

Ron's Quarterly Letter

April 2014

Most of the economic and market trends we've been discussing for the past few years remain in place.

Russia's action in the Ukraine / Crimea may have long-term implications, particularly for Europe, but the near-term economic implications are modest. It remains to be seen whether this gets added to our long-term worry list or not.

Japan's version of "Quantitative Easing," after helping its market last year, is now running out of gas. A few days ago, Japan raised its consumption tax; the last time they did that, it triggered a recession. We remain baffled by the logic Japan is following; i.e. attempting to spur growth via government spending, which requires an increase in taxes and borrowing to achieve. We are not optimistic about the outcome.

Various countries in Europe continue to flirt with recession or default. Sovereign bond rates remain very low, and the European Central Bank's commitment to do "whatever it takes" has not been tested. Very little has changed in Europe.

The Chinese economy and other "emerging" countries continue to slow. China continues to try to unwind a credit binge in a controlled manner, which is working so far. Dramatic currency shifts in Turkey and other emerging markets, which started when the Fed started "tapering," have subsided. It isn't clear if continued tapering will create other dislocations and shifts going forward.

In the U.S., we continue on a slow growth path. Our government continues to squeeze employers, resulting in only modest gains in employment. The U.S. Federal Reserve is proceeding with tapering of its buying of U.S. Treasury and mortgage bonds. The bond market responded to the change in direction last summer by upping interest rates in long bonds. Since then, long rates have fluctuated in a range consistent with contained inflation and continued slow growth in the economy. Short rates remain near zero, driving individual and pension investors elsewhere.

Stocks rose last year to a level consistent with current earnings levels and very modest inflation. Company earnings have actually been aided by management reluctance to build plants or hire people in the face of slow economic growth and added regulations. (Have you noticed that corporate annual reports are twice as thick as they used to be, but with no additional information?) Currently, we see no relief from these pressures.



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 03/31/14

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 Corporation	IT Services	6.94
Spirit Airlines Inc.	Airlines	5.34
Hanesbrands Incorporated	Textiles, Apparel & Luxury Goods	4.52
Delta Air lines, Inc.	Airlines	4.38
Celgene Corporation	Biotechnology	3.68
JP Morgan Chase & Company	Banks	3.51
Discover Financial Services	Consumer Finance	3.48
American International Group, Inc.	Insurance	3.15
Covidien PLC	Health Care Equipment & Supplies	3.09
State Street Corporation	Capital Markets	3.06

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 MARCH 31, 2014

Year-To-Date	Annualized				
	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
1.80%	23.10%	11.30%	16.79%	3.49%	4.93%

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	18.50% *
Long-Term Earnings Growth	13.28% *
Average P/E	19.36 *
Forward P/E	15.35 *
Portfolio Turnover	26.21% **

* Weighted averages using
Bloomberg data as of 3/31/14

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.
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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.