Muhlenkamp & Company, Inc.

Ron's Quarterly Letter
July 2014

Sometimes, I'm tempted to write "same as last time." This is one of those times.

Three months ago, in *'Memorandum #110,* we wrote:

> *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.*
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> *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.*

A few new items:

In Europe, Banco Espirito Santo, the largest bank in Portugal, has defaulted on interest payments on its bonds. Europe has not solved its problems.

In the U.S., for at least the fourth consecutive year, estimates of real GDP (Gross Domestic Product) growth, which exceeded 3% prior to the beginning of the year, have been reduced to 2% or less by midyear (now). The U.S. continues on a slow growth path.

During the second quarter, stock prices rose nicely to levels that we consider full value, so we've begun selective pruning of our holdings.

We do consider it healthy that individual stocks are now responding to both good and bad news.

Ronald H. Muhlenkamp

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.

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MuhlenkampSMA All-Cap Value

For the period ended 06/30/14

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 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	8.96%	23.92%	14.09%	14.29%	4.25%	4.18%
S&P 500 Total Return*	7.14%	24.61%	16.58%	18.83%	7.78%	4.35%
Consumer Price Index**	2.08%	2.13%	1.73%	2.15%	2.32%	2.42%

* **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 – As of May 2014 U.S. CPI Urban Consumers NSA (Non-Seasonally Adjusted), Index**

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 Asse
Alliance Data Systems Corporation	IT Services	6.73
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	5.38
Spirit Airlines Inc.	Airlines	5.26
Delta Air Lines, Inc.	Airlines	4.63
Covidien plc	Health Care Equipment & Supplies	3.51
Discover Financial Services	Consumer Finance	3.39
American International Group, Inc.	Insurance	3.19
J.P. Morgan Chase & Company	Diversified Financial Services	3.09
Microsoft Corporation	Software	2.88
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.86
Halliburton Company	Energy Equipment & Services	2.79
General Motors Company	Automobiles	2.74
State Street Corporation	Capital Markets	2.66
DIRECTV	Media	2.61
ARRIS Group Inc.	Communications Equipment	2.52
American Axle & Manufacturing Holdings, Inc.	Auto Components	2.43
General Electric Company	Industrial Conglomerates	2.25
Gilead Sciences, Inc.	Biotechnology	2.08
Celgene Corporation	Biotechnology	2.08
Berkshire Hathaway Inc. - Class B	Diversified Financial Services	2.01

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

Composite Top Ten 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).

Muhlenkamp & Company, Inc.
Intelligent Investment Management

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.

Investment Adviser

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SMA Facts

Average Number of Equity Holdings	33
Cash & Cash Equivalents	8.18%
Portfolio Turnover	14.01% ‡

‡ *Trailing 12 months*

SMA Facts are presented as supplemental information.

SMA Information

Created in November 1978, Muhlenkamp & Company's All-Cap Value Composite includes separately managed fee-paying accounts over $100,000, full discretion, under management for at least one full quarter. 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.*

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**
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
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

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, 2013 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, 2013. 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.

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.

* **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.*