



Muhlenkamp & Company, Inc.

Ron's Quarterly Letter October 2014

My first draft of this letter, which I wrote three weeks ago began with:

- Europe has not solved its problems;
- Nor has Japan;
- Nor has China;
- Nor has the U.S.

The rest of that draft is now obsolete.

Since mid-September, several items have changed—some economic, some market-related, some psychological.

Economically...

1. The International Monetary Fund (IMF) has lowered its estimate of world Gross Domestic Product (GDP) growth going forward.
2. Germany (the strongest economy in Europe) has reported disappointing numbers, particularly in capital goods. It looks like Europe is back in recession.
3. The U.S. Federal Reserve Bank (Fed) lowered its estimates of U.S. GDP growth for the next four years.
4. Crude oil, which was trading in a range of \$100-\$110/barrel, fell to \$82/barrel. The surprise was an announcement by Saudi Arabia that they would not try to keep the price above \$100/barrel. This is a change from their prior policy.

Markets...

1. Many hedge funds are having a poor year and are facing redemptions. CalPERS (California Public Employees' Retirement System) announced that they were withdrawing \$25 billion from hedge funds. This drives "forced selling" by those funds. The difficulty is estimating the size of the forced selling.
2. Ten-year U.S. Treasury bond yields fell from a range of 2.40%-2.6% to (briefly) below 2 percent. A huge move in a short period of time, the headline is "A Flight to Quality."

(Mostly) Psychological...

1. The battle against ISIS in the Middle East.
2. Ebola and the Centers for Disease Control (CDC): It appears that the Center is not prepared for disease control.

All of this together resulted in stock market declines of 7%-12% in a month, depending on which index you measure. The size of this "correction" was not unexpected, but the short timeframe was unusual. On some days the forced selling appeared to feed on itself and bordered on panic liquidation. As I write this letter on 10/17, this selling has abated, at least for the time being.

The good news is that we raised some cash coming into this period, and that we're seeing more and better values than we did 2-3 months ago. The bad news is that we didn't raise enough cash (in a downturn, you never do) and the prices of our holdings fell with the marketplace. It remains true that although economic data changes gradually, the markets' response to that data can be rapid.

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.

One cannot invest directly in an Index.

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MuhlenkampSMA

All-Cap Value

For the period ended 09/30/14

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)

	Year to Date	One Year	Annualized			
			Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Return	7.19%	16.03%	19.08%	10.13%	3.89%	5.17%
S&P 500 Total Return*	8.34%	19.73%	22.99%	15.70%	8.11%	4.87%
Consumer Price Index**	2.06%	1.70%	1.64%	1.96%	2.30%	2.38%

* 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 August 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 Asset
Alliance Data Systems Corporation	IT Services	6.10
Hanesbrands, Inc.	Textiles, Apparel & Luxury Goods	6.01
Spirit Airlines Inc.	Airlines	5.85
Delta Air Lines, Inc.	Airlines	4.40
Discover Financial Services	Consumer Finance	3.62
Covidien PLC	Health Care Equipment & Supplies	3.46
J.P. Morgan Chase & Company	Diversified Financial Services	3.32
Microsoft Corporation	Software	3.28
American International Group, Inc.	Insurance	3.21
State Street Corporation	Capital Markets	2.99
Annaly Capital Management Inc.	Real Estate Investment Trusts	2.75
Gilead Sciences, Inc.	Biotechnology	2.75
DIRECTV	Media	2.73
Halliburton Company	Energy Equipment & Services	2.60
General Motors Company	Automobiles	2.42
Celgene Corporation	Biotechnology	2.36
ARRIS Group Inc.	Communication Equipment	2.26
Berkshire Hathaway Inc. - Class B	Diversified Financial Services	2.25
General Electric Company	Industrial Conglomerates	2.24
American Axle & Manufacturing Holdings, Inc.	Auto Components	2.21

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.



SMA Facts

Average Number of Equity Holdings 32
Cash & Cash Equivalents 7.23%
Portfolio Turnover 16.43% ‡

‡ 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.



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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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			THREE-YEAR ANNUALIZED STANDARD DEVIATION*		
				Composite Gross	Composite Net	S&P 500 Total Return Index	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.