



# The Muhlenkamp Memorandum

Muhlenkamp & Company, Inc.  
Intelligent Investment Management  
12300 Perry Highway • Wexford, PA 15090  
(412) 935-5520 • FAX (412) 935-4720  
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## Quarterly Letter

As of August 12, 1992 the N.A.V. of the  
Muhlenkamp Fund was 14.16. Up 7.1% YTD

The first quarter of 1992 witnessed an increasing confidence in a rebounding U.S. economy. During the second quarter much of that confidence was dissipated. Consequently, while the first quarter saw an increase in long-term interest rates and in the price of cyclical stocks, the second quarter saw an offsetting decline in long-term rates and in many of those same stocks. Although the DJIA is up 3% for the first half of 1992, most other market averages are down, some rather significantly. Of a broad list of 5000 stocks, over 2000, or 40%, have declined 30% or more in price from their January/February highs. Thus we are getting the market correction that we asked for in our April newsletter. Of course, like most corrections, it has been less fun than we had hoped because it includes some of our stocks. While stocks have been correcting, bond prices have appreciated modestly as interest rates have trended lower. Both have occurred for much the same reason; the economy is expanding, but at a very modest rate.

The American public continues to be cautious in its spending, preferring to pay down debt rather than purchase ever more goods and services. We have discussed the likelihood of this happening at length in recent newsletters (copies available

upon request), but still have no idea how far the public will extend the trend. As a result of the public's desire to pay down debt, the economic recovery remains lackluster and interest rates continue to decline. From a long-term perspective, these are positive developments; but short term they add uncertainty to the financial markets and make our politicians nervous. Effectively, both investors and politicians are responding to the changing habits of the spending public, but have no more idea than we do how far the trend will go. In his testimony before Congress on July 21, Alan Greenspan made this same point.

For our part we are monitoring the flow of investment dollars (out of CD's and into \_\_\_?) to get a handle on the pattern of interest rates; and, we are monitoring the flow of political pressures (and votes in November) to get a handle on changes in the legislative and tax climate. As we get conviction in these areas, we will invest your money accordingly. On average, stocks are fairly priced, but we are seeing more companies at price levels we find attractive than we did early in the year. Consequently, we are currently adding to our stock holdings. If you are considering adding funds to your managed account, we think that now is a good time to do so.

We've expressed our thoughts on the American public's new found propensity to save in our recent newsletters, particularly issues 18-22. In response to rapidly changing mortgage rates, the mortgaged American public responded with heavy demand for refinancing in January and February. In response to this demand, rates increased, causing many to fear that they'd missed their one chance to refinance at lower rates. But rates have drifted back down and the demand for refinancings has picked up again. Each swing in the rate cycle is likely to increase the public's confidence that rates are trending down. We're monitoring the demand for adjustable rate versus fixed rate mortgages to get a handle on the public's confidence level.

Meanwhile, our parents, the saving American public, continue to see their "income" squeezed with rates on CD's now at 3%. (As recently as May 1991, 6% CD's were considered temporarily low by

many). These 3% CD rates are driving the saving dollars almost anywhere. Many of the alternative products being bought are not well understood by the buyers and some will not fulfill the promises of the sellers. In this area also, we're monitoring the actions of the public to get a reading on the trends. We monitor the public because we don't know how to predict what they'll do. (But we do know how to predict the consequences of what they do.)

### On the Election Front.

I was often asked what I thought about Ross Perot. While I was waiting to hear his position on a number of issues, he stepped out of the race, so the question is partly moot. My belief is that the American public chose him to represent "None of the Above" and, in doing so, finally got the attention of our Representatives in Congress. Presidential candidates have been campaigning against

Washington D.C. since Jimmy Carter in 1976 (16 years). However, as long as it was Democrats versus Republicans, our Congressmen could believe that the game was the same as always and they felt

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secure. Perot's "None of the Above" candidacy finally caught their attention. They're finally getting the message that the American voter wants the game to change. It will be interesting to see whether the Perot supporters will continue to push for the changes that they want without his name and candidacy as a focus. In the final analysis, We, the voters, get the political leadership we deserve.

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