

THE MUHLENKAMP MEMORANDUM

Editor's Note: The following letter was written in response to the Muhlenkamp Fund being excluded from the 1998 Consumer Reports Mutual Fund Guide.

Mr. Louis Richman
Finance Editor, *Consumer Reports*

Dear Mr. Richman:

Thank you for taking the time to talk with me about the Muhlenkamp Fund's exclusion from the *Consumer Reports Mutual Fund Guide*, due to our "high" expense ratio. As we discussed, the actual net expense ratio for the Muhlenkamp Fund for 1997 was 1.33%. The numbers you received from *Morningstar*, and used to exclude the Fund, are the 1996 expense ratio of 1.55%. As you can see from the enclosed 1997 annual report, our expense ratio has been trending down as the Fund grows in asset size. Note that in 1997, the only expenses that rose as a percentage of net assets were transfer agent fees and postage. The number of accounts, not the size of assets, determines these expenses.

We walk a fine line in this business between opening our doors to small investors and keeping expenses low. Every \$200 account (our current minimum) we open for a first time investor costs just as much to service as the \$200,000 account of a larger investor. Our objective is to make our shareholders above average returns, and let those with very little assets participate. Since there is so much demand for lower expense ratios in the mutual fund industry (as indicated by your March issue), we may need to raise our minimums to lower the expense ratio. This would be to the detriment of small investors.

We're not sure that expense ratios should be of such great importance, since all mutual fund returns are reported net of fees and expenses. Over the last five years, we made an average annual net return of 20.4% for our shareholders, with an annual expense ratio between 1.3% and 1.6%. This claim *cannot* be made by **98%** of the 8,843 funds tracked in the *Morningstar* database. This includes the Vanguard Index 500 Fund, which has an annual expense ratio of 0.20%. If all funds were equal, then expenses would be of great concern. As you well know, all fund returns are not equal. Some do better than others.

As an investment management company, we add value for our shareholders by choosing the best possible investments for the Muhlenkamp Fund. For this reason, we expect to be paid appropriately for our services. We may need to work harder than the rest of the funds to offset our expense ratio, and we have managed to do this for almost a decade. In addition, our work is done without charging any sales commissions, redemption fees or 12b-1 marketing fees, as is the practice of so many mutual fund companies in our industry.

We do agree that the topic of expenses for financial products should be addressed; however, most 100% no-load mutual funds are doing a pretty good job in this area. Banks generally have spreads over 3% between the money they have on deposit and the money they loan to their customers. Many insurance products like variable annuities, fixed annuities, variable life and whole life routinely have annual expense ratios between 2% - 3%. Our 1.33% expense ratio looks small in comparison. When you publish your mutual fund guide next year, we hope you will take a second look at the importance of expense ratios when screening mutual funds.

We think an issue that is worth a look from your fine magazine is tax-efficiency for mutual funds. Many mutual funds have a 100% portfolio turnover ratio each year -- some even higher. Since mutual funds must pass through almost all of their realized gains, interest and dividends to their shareholders each year, many investors are getting nailed with huge taxable distributions from their funds. This actually lowers the net return of the fund when you consider the taxes that must be paid on the distributions.

At Muhlenkamp, we have always managed shareholder assets to maximize returns on an *after-tax* basis. In fact, we have only paid out two small capital gains distributions in nine full years of operations, and our total distributions have averaged less than 1.3% a year over this same period. Our shareholders get to keep most of what we make for them in any given year. They will eventually pay capital gains taxes when they sell their shares, but that will be at a future time of their choosing, and it should be at a lower (long-term capital gains) tax rate. In the meantime, their shares continue to grow, in most years, tax-deferred.

Thanks again for taking the time to talk with me. Please contact me if you would like to further discuss the subjects of expense ratios or tax-efficiency in the mutual fund industry.

Sincerely,

Grant Duffield

THE MUHLENKAMP MEMORANDUM

MUHLENKAMP FUND PROCEDURAL INFORMATION

BY ANTHONY MUHLENKAMP

It seems shareholders are confused about how and where to contact us, so I have tried to establish some guidelines for future reference.

To contact us by mail send your information to one of two addresses, depending on your intent:

1. For subsequent investments to an established account, send your check to:

Muhlenkamp Fund
PO Box 799
Cincinnati OH 45264-0799.

Remember the minimum subsequent investment to an existing non-IRA account is \$100. We will return any checks we receive for less than \$100.

2. To open a new account, redeem money from your existing account, change your account registration, enroll in or change your Automatic Investment Plan, or communicate anything about a specific account, write to us at:

VIA FIRST CLASS MAIL
Muhlenkamp Fund
C/o American Data Services
PO Box 5786
Hauppauge, NY 11788-0164

or

VIA OVERNIGHT MAIL
Muhlenkamp Fund
C/o American Data Services
150 Motor Parkway, Ste.109
Hauppauge, NY 11788-0164

Call us at 1-800-860-3863 if you have questions, comments, problems or complaints. For a recording with the most recent calculated Net Asset Value, dial extension 2. To order a prospectus and application for the Fund, dial extension 3. To speak to us about the Fund, dial extension 4. If all our representatives are busy, please leave a message on voice mail, and we will call you back as soon as we can.

Finally, a word about processing your investments. We retrieve our mail from the Post Office several times each morning. All purchases will be made WITHOUT ANY SALES CHARGES on the business day your properly completed application and check are in the Fund's possession. Purchase of shares for your account will be

made at the Net Asset Value (NAV) per share calculated as of that same day. The NAV is calculated for each day at the close of business on the New York Stock exchange (now 4:00 pm) and is available after 5:00 p.m. On the following business day, your statement is printed, folded, stuffed and sealed. It is mailed on the second business day following your transaction. This is our Standard Operating Procedure, which means you should expect a confirmation statement for a transaction no sooner than 12 calendar days from when you mailed your check (allowing for 8 days back and forth in the mail and weekends.)

We are continually trying to improve our service to you, and these are some of the service standards we are trying to meet. Please let me know if and when we don't meet these standards, or if you think we need to change the standards. You can reach me via phone at 1-800-860-3863 ext.13 or e-mail at tony@muhlenkamp.com.

UNDERSTANDING INVESTING

We write this newsletter to communicate our perspective on the markets, economics, politics and life in general to our clients and shareholders. You may have noticed that our perspective is often very different from that of Wall Street and the articles you read in various national publications. This is one of the reasons for our success -- because in investing, once everybody knows something, it's generally no longer true.

Twice a year we present our ideas in a seminar in the Pittsburgh area. Since many of you do not live in this area, we have put this seminar entitled, "Understanding the Current Investment Climate" on videotape. To better understand the investment climate in which we live and why we manage our assets as we do, we encourage you to purchase this seminar video for your family.

If you have ever wondered about the following questions, you should purchase this video: Why isn't real estate doing as well as it once did? Why did the stock markets fall in 1973-74, but do so well in the 1980's and 1990's? Why are my CD's, bonds and utilities not doing as well as they once did? Are the markets overpriced today? These questions and many more are answered in this video, and you can watch it in the comfort of your living room.

We charge \$15 for the video to cover our costs and to ensure that you actually watch it. Please send your check made payable to Muhlenkamp & Company, Inc., to the following address: Muhlenkamp & Company, Inc., 12300 Perry Highway, Wexford, PA 15090.

THE MUHLENKAMP MEMORANDUM

Ron Muhlenkamp's "READING LIST FOR LIFE AND INVESTMENT FUNDAMENTALS 101"

<u>To Understand:</u>	<u>Read:</u>	<u>By:</u>
The way things work.	<i>The Way Things Work.</i>	David Macaulay
Why you'll never understand the other sex	<i>You Just Don't Understand.</i>	Deborah Tannen
Values.	<i>Zen and the Art of Motorcycle Maintenance.</i>	Robert M. Pirsig
The evolution of moral standards	<i>Lila</i>	Robert M. Pirsig
Why global warming is unlikely	<i>Climate and the Affairs of Man</i>	Iben Browning
The difference between modern liberals & conservatives	<i>A Conflict of Visions.</i>	Thomas Sowell
How the best and the brightest can be totally wrong	<i>The Best & The Brightest.</i>	David Halberstam
	<i>Atlas Shrugged.</i>	Ayn Rand
Economics	<i>Human Action</i>	Ludwig von Mises
Economics - short course	<i>Economics in One Lesson</i>	Henry Hazlitt
Why socialism can't work.	<i>Socialism</i>	Ludwig von Mises
Why government domination of economics can't work	<i>The Road to Serfdom</i>	F.A. Hayek
Politics		Will Rogers
The fundamentals of fundamental security analysis	<i>Security Analysis</i>	Graham, Dodd & Cottle
The fundamentals of understanding securities markets	<i>The Battle for Investment Survival.</i>	Gerald M. Loeb
How to pick stocks	<i>One Up on Wall Street</i>	Peter Lynch
	<i>Common Stocks & Uncommon Profits.</i>	Phil Fisher
Investing	<i>The Intelligent Investor</i>	Ben Graham
	<i>Buffettology</i>	Mary Buffett
	<i>Berkshire Hathaway, Inc. Letters to Shareholders 1977-1997</i>	Warren Buffett
(Note: Don't confuse the writings <i>about</i> Mr. Buffett with the writings <i>of</i> Mr. Buffett.)		
Foreign investing	<i>Investment Biker</i>	Jim Rogers
Why the consumer is king	<i>Made in America</i>	Sam Walton
How it all fits together	<i>Essays</i>	Ron Muhlenkamp

MUHLENKAMP IN THE NEWS

Kiplinger's Personal Finance Magazine, "Top Performing Stock Mutual Funds", May 1998, pg. 42
The Wall Street Journal, "Top-Performing Funds in Selected Sectors", April 6, 1998, pg. R17
Barron's, "Pocket Protectors", April 6, 1998, pg. F11
Your Money, "Mutual Fund Monitor", April/May, pg. 24
Investor's Business Daily, "Making Money in Mutuals", March 30, pg. B1
Bloomberg Personal, "Top Mutual Funds", March 1998, pg. 29
Bloomberg Personal, "It's Your Call", March 1998, pg. 30
Louis Rukeyser's Mutual Funds, "The Rukeyser 100" March 1998, pg. 11
Your Money, "Top Funds for Taxable Accounts", February/March, pg. 52

MUHLENKAMP FUND AVERAGE ANNUAL RETURNS AS OF 3-31-98

<p>One Year</p> <p>46.8%</p>	<p>Three Years</p> <p>34.9%</p>
<p>Five Years</p> <p>20.5%</p>	<p>Since Inception (11-88)</p> <p>17.7%</p>