Editor's Note: Ron Muhlenkamp was the featured portfolio manager on AOL's Sage Chat, on June 30, 1998. The following dialogue is an edited excerpt of that night's chat session.

Question: My sister is 13, and is looking for a starter fund. Do you feel your fund is a good starter fund?
RM: We try very hard to make it a good fund from start to finish. Our clients range in age from 6 months to 90 years. We have a minimum of $200, although that might be boosted. We try to manage money the way it should be managed. We manage for total return, provide full diversification, and have a low minimum to help people get started.

Question: I'm also looking at the Muhlenkamp Fund, and was wondering if you feel if it's a good fit with T. Rowe Price International Stock, Oakmark Small Cap, and Stein Roe Young Investor?
RM: Alot of people have moved toward putting funds into pigeonholes. Our franchise allows us to own a broad range -- big and small cap, domestic and foreign, stocks and bonds -- and we move money in those areas as we find individual companies or opportunities attractive. Pigeonholing assumes the investor knows more about allocating assets than we do. We haven't seen much evidence supporting this assumption, so we take the responsibility of choosing the area of investment. This puts us at odds with a whole lot of conventional investment thinking today.

Question: When will that minimum increase be taking place? Do you have any idea?
RM: Probably in a few months and it's likely to go to $800 or $1000. As you might know, $200 accounts are rather expensive to the other shareholders. I appreciate your comments, but those $200 accounts get expensive.

Question: How are your fees compared to other funds of your style?
RM: The short answer is that I do not know what other funds' fees are. Ours are 1 percent for management and the other expenses are 0.33 percent, for a total of 1.33 percent in 1997. Most people consider our style to be value -- we consider it to be total return; i.e., we make money any way we can. We have a low turnover of less than 20 percent per year, allowing us to defer taxes. In the last 10 years, Muhlenkamp Fund shareholders have paid taxes on a total of 36 cents in realized capital gains distributions, while the fund's share price went from $10 to over $42.

Question: How do you find value in the market today given the high multiples of stocks?
RM: We start by looking for good companies. We want companies with a return on equity [ROE] over 15 percent and a price/earnings [P/E] ratio below the ROE. If you look at our portfolio, you will see that our average ROE is 22 percent and the P/E is 18, so we have very good companies at moderate prices. By our model the market is not overpriced, it is fairly priced. Some stocks are overpriced. We try to own the companies that are fairly priced or cheaply priced.

Question: How many stocks does the fund hold?
RM: Between 50 and 60. It used to be fewer when the fund was smaller. Statistically, once you get past 20 individual securities, you're pretty well diversified.

Question: Do you visit the companies you are interested in?
RM: It depends on the company. If we are interested in Ford Motor we can get ample research from Wall Street. But if we are interested in a small company, we visit the company. In the final analysis, you are betting on people and you have to get to know them.

Question: What is the highest P/E stock you hold?
RM: Probably General Electric. General Electric was a considerably lower P/E when we bought it. We determine a fair price for every company we own. If the stock gets to our fair price, we are likely to sell it down to an average-sized position. We then may hold it, even though it gets somewhat overpriced, but we know that we are riding a psychological trend rather than fundamental value. Most of you will know that psychological trends have a different character from fundamental value. You can make money on either one, but if you confuse the two, you are quite likely to lose money.

Question: Is your fund a mid-cap by design or did it just end up that way?
RM: Our fund does not worry about size. Because we own some big, mid-size, and small companies, and data houses like Morningstar take averages, they call Muhlenkamp a "mid-cap" fund. Headline: we have never found size to be a useful criterion in picking companies or stocks. I suspect that other people look at size because it is easy to measure.

Question: What's your latest 6-month return?
RM: It is 16.5 percent, as of June 30.

Question: Do you look at dividend yields and stock buybacks of a company?
RM: We look at stock buybacks. We do not consider dividend yield to be a useful number. We evaluate a company on how much they earn on their invested capital. That is what ROE is all about. Then we look at how well they invest the money they earn. For instance, if a company has a high ROE, we do not want them to pay a dividend. They should invest it back into the company rather than paying it out. If they have a low ROE they should pay it out either through dividends or stock buybacks, depending on the price of the stock. Just as you look for a money manager to make a good return on your invested capital, we look for corporate managements who make a good return on our invested capital.

Question: Do you use technical analysis to pick a stock or only fundamentals?
RM: Basically we buy on fundamentals and sell on technical analysis. Somehow, you cannot wait on fundamentals to tell you when to sell a stock. Management will often tell you the good news for the next 5 years and not tell the bad news until it is too late. So the best sales are often based on technical analysis; but best buys are nearly always based on fundamental analysis. Bottom line -- we use anything that works.

Question: What is the longest period of time you held a stock?
RM: Probably ten years, but I do not really know. Much of what we bought in 1990 and 1991 we still hold. If you go to our Web site, you will see that we believe the investment

Dialogue continued...

climate (the big picture) changes periodically and that the latest change occurred in 1990.

Question: Do you trade options?
RM: We have just received approval by our shareholders to buy and sell options in the fund. We may utilize options to a limited degree going forward. In the last 15 years we have not done much with options, because the investment climate did not dictate their use.

Question: Do you short stocks?
RM: In 1973 and 1974 I personally shorted quite a lot. We have no desire to short stocks in an up market.

Question: You seem similar in style to Torray. Do you often get compared to him, and if so, does that bother you?
RM: We have great respect for Bob Torray and we are not bothered to be compared to him. It might bother him! I suspect the difference would be making bigger bets on turnarounds. We like to see the company turn around first before we bet. But the bottom line is, I have great respect for BobTorray. To some extent, every money manager has to find the degree to which he will go out on a limb to make money. The further out you go, the more likely you are to make money, assuming your basic discipline is correct. But also, the further you go out on a limb, the more likely you are to get your shareholders nervous. Bob Torray will make you money, but you have to decide for yourself whether he makes you nervous. We go out on the limb a little less far than he does.

Question: How many hours a week do you spend on research?
RM: I work 60 to 80 hours a week. If you do not spend that, you are competing with those of us who do. I am an old farmer and a 40-hour week is a vacation.

Question: What was the first stock you purchased?
RM: You mean thirty years ago? I do not remember. In 1970 to 1972, I made a reputation in trucking stocks, but 30 years ago is a long time. I have no idea.

Question: How did you get to be a mutual fund manager?
RM: I was intrigued by the business in 1968 when I joined a number of classmates, including W.R. Berkeley, in NYC. I then spent ten years trying to find a company that would let me manage money the way I knew how. In 1978, I founded my own money management company managing private accounts, which required $200,000 per account to be diversified and keep costs down. In 1988, we started the Muhlenkamp Fund as a way of serving smaller accounts. Registering a mutual fund company with the Securities and Exchange Commission is a pain in the neck. But we now are enjoying our dialogue with shareholders.

Question: What will you do with Green Tree Financial when it is taken over? What will you put in its place?
RM: Conseco is buying Green Tree and we own both companies. We will probably have to sell some shares after the buyout is completed because it will be a large position. I complained to Conseco because I used to have 2 great companies. Now I have to go find another one. Our original cost basis on Green Tree was $1.35.

Question: Is anything wrong with Coca-Cola?
RM: Only the P/E multiple is wrong with Coca-Cola, and the fact that sales are growing very slowly. If you use sales growth as a measure of how much the public likes a company's product, for a company like Coca-Cola to continue to grow earnings at 15 or 20 percent when sales are growing at less than 5 percent, it becomes more and more difficult.

Question: How important is the price/sales ratio?
RM: Price to sales ratios will highlight those companies that have high sales and low earnings. So you might say it highlights ineffective management. This means that as management improves and margins improve, earnings should improve. The assumption, with low price to sales, is that the company is not going out of business but will at some point get effective management. In the 1980s, through better management and restructuring, companies improved their margins and returns, so that looking back, price to sales a decade ago was a useful criteria.

Question: How do you feel about day traders?
RM: We are happy to own brokerage stocks. If you can make good money day trading, by all means do it. When I worked in midtown Manhattan, I realized I was too far away from Wall Street to compete with those on the floor. Today we have quicker communications but I am not sure you get the same feeling as being on the floor of the exchange. So if you think you can do it, go ahead. I haven't found it profitable.

Question: Do you have an opinion as to whether an investor should or should not invest in a large fund?
RM: What the investor should do is find a manager with a philosophy that is: 1. consistent and 2. makes sense to the investor. Most professional money managers have a philosophy that is consistent. Where the investor gets into problems is buying into to a philosophy that is not comfortable. Unless you are comfortable with that philosophy and willing to stay with it when it is not working, you will sell out at the wrong time. Our Web page, quarterly newsletters and essays are an attempt to explain to our clients and shareholders why we are doing the things we are doing. Hopefully this helps them to stay with us when we look dumb. It is easy to stay with someone when they look good, but harder to stay with it when the manager looks dumb. You should pick a money manager the same way you pick a lawyer or doctor, as someone you respect, trust, and can live with when you are in difficult situations.

Question: Does your fund own any preferreds?
RM: At the present time, no.

Question: Do your small cap stocks outperform large or mid cap stocks?
RM: I have no idea if our small-caps outperform others. We do not think in terms of size because we haven't found it to be a useful criteria.

Question: In this market is it investing or gambling?
RM: Call our office and get our latest newsletter. We believe that the market has returned to fair value and, in fact, has returned to normal. But it is a "normal" last seen in the mid-

Dialogue continued...

1960s, when we last had inflation of 2 percent or less. The reasoning behind this is available on our Web page in a slide show titled "Understanding the Current Investment Climate" and an essay titled, "Why the Market Went Down", which I first wrote in 1979. In the late 1970s, people had as much trouble understanding why the market went down, as they have had trouble understanding why it has gone up so much in the last few years. Folks, we are back to "fair." So it is a great time to be an investor - you just have to do your homework. The address for our Web site is www.muhlenkamp.com.

Question: Where do you see the Dow at end of year?
RM: Folks, if you go to our Web page you'll see that we spend a fair amount of time understanding the big picture, which we call the "Investment Climate." If you're in concert with the big picture, you don't have to be clairvoyant on the little picture.

We want as many things as possible in our favor. The big picture has been positive since 1981. The medium-term picture, which is basically the business cycle, has been positive since 1990. Normally, population grows and GDP grows, so normally companies grow and stock prices go up. We like being on the right side of these trends. We monitor the present, looking for changes in the trend. If you convince me that inflation is going from 2 percent to 5 percent, or that we are going into a depression, that would be a major change in the big picture. We don't currently see that happening. Convince me that we're going into a recession, and that would be a change in the intermediate-term picture. We don't currently see that either.

What we do see is that in April 1998, the average stock reached fair price based on 1998 earnings with 8 months to go in the year. Logically, the market could move sideways for 8 months, much as it did from July 1997 to January 1998. But the market very seldom moves straight sideways. It would disappoint too many people -- the media and the brokerage community. So what we expect is high volatility, but with a net sideways movement, within a range of plus or minus 10 percent. It is very hard to price any good or commodity, be it a house, a car, or company values, tighter than plus or minus 10 percent. That is the negotiating range, or the volatility range, you get with no change in underlying values. It is only in the stock market that you get people worrying about a price change of plus or minus 10 percent. Plus or minus 10 percent is simply noise -- do not worry about it.

Sage Host: It is time to close. Ron, what did you think of this Sage chat?
RM: I enjoyed it. I appreciate the questions. Again, a thorough explanation of my answers is on our Web site. They are also available in an essay booklet or video (we charge for those). We appreciate your questions. Your feedback is useful to us. I will be happy to come back again.

* * *

To receive future editions of this newsletter via e-mail, instead of paper, please e-mail your name, e-mail address, and mailing address to monica@muhlenkamp.com.

MUHLENKAMP IN THE NEWS

Kiplinger's Personal Finance Magazine, "And the Winners Are?", August 1998, pg. 82
The Wall Street Journal, "Top Performing Funds in Selected Sectors - Flexible Portfolio Funds", July 6, 1998, pg. R-18
Los Angeles Times, "Some Blue-Chip Funds Stay the Course, Some Stray Off-Course", July 7, 1998, Wall Street California Section
Louis Rukeyser's Mutual Funds, " Trend Bettor", July 1998, pg. 6
Smart Money Interactive, "Five True Tax - Efficient Funds", June 29, 1998
Bloomberg Personal Finance, "Partners in Profit", July/August 1998, pg. 68
Bloomberg Personal Finance, "Top Mutual Funds", July/August 1998, pg. 29
Investor's Business Daily, "Muhlenkamp Benefits From Financial Stocks", June 15, 1998, pg. B3
Investor's Business Daily, "Top 25 Growth & Income Funds", June 11, 1998, pg. B2
Kiplinger's Personal Finance Magazine, "Top Performing Stock Mutual Funds", July 1998, pg. 41,44
Forbes, "Halfway Point", June 15, 1998, pg. 276
Kiplinger's Personal Finance Magazine, "Top Performing Stock Mutual Funds", June 1998, pg. 42
AAII Quarterly Mutual Fund Update, "Top Stock Funds Ranked by Risk Adjusted Returns", April 1998, pg. 3
Smart Money Interactive, "The Fund Manager: What, Me Worry", April 27, 1998
Los Angeles Times, "Tax - Efficient Funds: There Are Precious Few", April 21, 1998
Morningstar.net, "Muhlenkamp Cheers Conseco-Greentree Merger", April 4, 1997

MUHLENKAMP FUND AVERAGE ANNUAL RETURNS AS OF 6-30-98

One Year	Three Years	Five Years	Since Inception (11-88)
32.9%	*32.0%*	*21.3%*	*17.7%*

Please read the prospectus carefully before you invest. Past performance does not guarantee future results. Fund shares when redeemed may be worth more or less than their original cost.