(*Quarterly Letter continued)*

In August and again in October we witnessed the selling of securities regardless of price. We believe this selling was done by hedge funds who received margin calls on their portfolios in August, forcing them to sell. They then received redemption requests by their investors at the end of September forcing them to sell again in October. This forced selling drove market prices of both bonds and stocks down dramatically in August and October. This selling engendered a climate of fear and uncertainty in the marketplace. This fear and uncertainty manifested itself in several ways. First, of course, it resulted in the selling of securities, regardless of price. Second, it fostered a preference for only the highest quality bonds (U.S.Treasuries) and for the highest quality stocks. Third, it fostered fears of recession. Headlines of the time speculated that we must be facing serious economic problems for the markets to be so weak.

But economic data confirm that the economy remains quite healthy. As the data continue to come in, we believe that confidence in the economy and in secondary stocks will recover and that values in the marketplace will once again reflect corporate values. In the fearful time of August-October, value didn't matter. Those folks needing or wanting to own securities were only interested in owning those perceived as the highest quality, which we call "security blankets." In the bond markets, only Treasury bonds were good enough. Treasury bond prices went up, all other bond prices went down. In the stock market, only two sectors did well: the biggest and the best.

The S&P 500 is capitalization weighted. The big companies are weighted heavier than the smaller companies. In fact, the top 10 stocks (of 500) equal 21% of the index. As a result, the S&P 500 did 28% for the year even though the median (one-half did better, one-half did worse) price range of the S&P 500 was 3.5%. The S&P 500 is composed of the largest stocks. Mid-size and small stocks did worse than the median S&P stock. So why didn't we own more of these big stocks? In a word - Price! The average stock in the S&P is priced at 30 times earnings (P/E=30). The top 10 have an average P/E over 50. Our holdings have an average P/E of 15.

Historically, lower P/E's have protected investors in declining markets, especially if the decline was sizeable or protracted. In 1998, the decline was sizable but short-lived. At any rate, our lower P/E's didn't help us this time. Investors paid up for "security blankets," not value. We believe this is changing as investors gain confidence that their economic fears won't be realized. This is seen by the markets' response to Brazil's recent floating of its currency. The real sign is that the investors' attitudes have changed. After months of fear that Brazil would devalue (or float) its currencies, the market's response to the reality was one of relief. Markets in Brazil and in the U.S. went up. We suspect that the different response was due to:

1. The action was long feared/anticipated; therefore, not a "surprise."
2. It didn't trigger margin calls in leveraged portfolios, which would have resulted in further selling.
3. Nervous holders of securities had been recently "washed out" in the August-October period.

As the data continue to come in showing the U.S. economy doing well, inflation under control and corporate profits in decent shape, we expect investors to broaden their list of acceptable stocks to include good companies at favorable prices, such as those we own. *-- Ron Muhlenkamp*

Muhlenkamp Fund Turns 10

The Muhlenkamp Fund turned 10 years old at the end of 1998. We thank all of you for helping the Fund reach this milestone and we look forward to working with you over the next decade and beyond.

Shareholders invested since 1988 have participated in a share price increase from $10 to $37.65 at the end of December. This is an average annual total return of a little over 15% a year. At the same time the Fund has only paid two capital gains distributions over the last decade, totaling a mere 36 cents per share. This makes the Fund very tax efficient.

We are aware that shareholders investing within the last year have not realized these same returns. The second half of 1998 was rough going for the Fund. While the decline of the third quarter hit all stocks, the subsequent rebound has not yet benefited "value" stocks. We do expect this to happen over the next year or two.

Trustees Approve Fund Changes

In an effort to improve service to shareholders of the Muhlenkamp Fund, while keeping costs in check, the Trustees of the Muhlenkamp Fund recently decided to make a few operational changes to the Fund. All of the following changes will take place on May 1, 1999. First, the Trustees hired Firstar Mutual Fund Services of Milwaukee, Wisconsin as our new fund service partner, replacing American Data Services of New York. The Trustees also increased the initial minimum investment to $1,500 for all new accounts, unless the account participates in the Automatic Investment Program (AIP), whereby the minimum remains $200. Both of these changes reflect an ongoing effort to better serve our shareholders.

As Transfer Agent, Firstar will be responsible for recording and reporting on your investment in the Fund. They will receive your investment and redemption instructions, prepare statements, checks, and year-end tax forms. It is their job to perform shareholder recordkeeping. Firstar has an excellent reputation in the industry as a first-class shareholder servicing company, with well-trained personnel and state-of-the-art technology. We look forward to working with them to improve the level of our shareholder service and to add new additional services as we go along. We plan to add telephone transactions this year, and we will let you know when Telephone Transaction Enrollment forms are available. We will also let you know when the Fund's mailing address changes, so please look for more information between now and May. Until then, continue to use the Cincinnati PO Box for subsequent investments and the Hauppauge PO Box for all other Fund correspondence. Our 800-telephone number will remain the same even after Firstar commences operations.

The changes to our minimums require more explanation. Our goal has always been to increase the assets of Muhlenkamp Fund shareholders and do it at a reasonable cost. When the Fund opened in 1988, we initiated a low minimum investment of $200 so that all investors, no matter their asset size, could begin building an investment nest egg. Many of you have done so. With your continued investments and some help from our efforts, your nest egg is growing nicely. But we also have a large number of accounts that started at $200 and over the years made little or no subsequent investments. These small accounts have placed a burden on keeping overall fund expenses at a reasonable cost. Fixed costs per shareholder account run between $15 - $20, no matter the account balance.

Over the years, shareholders of the Muhlenkamp Fund have requested ever more services from the Fund. At the same time, shareholders have also encouraged us to lower the expense ratio of the Fund, while keeping a low minimum investment. As you can imagine, additional services, low expenses and low minimums cannot coexist painlessly. In an attempt to accommodate all of these priorities, the Fund will implement the following changes on May 1, 1999:

1. The initial investment minimum for new accounts is $1,500. The $1,500 minimum is reduced to $200 for those new accounts participating in the Automatic Investment Plan (AIP). The AIP requires a minimum of $50 per month automatically invested from your checking or savings account.
2. As of December 30, 1999, all accounts must have investments totaling $1,500 or more; or an account balance greater than $1,500; or be enrolled in the AIP. Accounts that do not meet one of these three criteria will be charged a $15 fee, paid to the Fund to lower overall expenses. We will check accounts and charge this fee annually.
3. Minimum subsequent investments will be $50 for all accounts.
4. All minimum requirements apply to all accounts, including UGMA, Traditional and Roth IRA.

We have enjoyed working with you over the last decade and we anticipate that the above changes will help us serve you better in the years to come. If you have any questions or comments about these changes, please call, write, or e-mail us.

What's Happening to my Investment?

I recently returned from a business trip and received a welcomed call from my 74-year-old grandmother. The initial conversation revolved around my trip and my 1-year-old daughter. However, after a few minutes, I could tell that this was not the reason for the call. The following dialogue is very similar to our actual conversation.

Grant: Is something on your mind?
Grandma: Well, we've been watching the news and the commentators are saying that the Asian crisis is continuing and it looks like Brazil might go down the tubes. We're worried about what could happen.
Grant: You're worried about Asians and Brazilians?
Grandma: We're more worried about our investment in the Muhlenkamp Fund. The commentators said these events could affect the U.S. and our investments in mutual funds.
Grant: How will they affect your investment?
Grandma: If we can't export to these countries, who is going to buy our goods and services?
Grant: Did the commentators say how much of our economy depends on these exports?
Grandma: No, but I'm sure it's substantial.
Grant: How many of your friends and family members rely on these exports for their livelihood?
Grandma: Probably none.
Grant: Will you do anything differently tomorrow if the Asian crisis worsens and Brazil devalues it currency?
Grandma: Probably not. I'm not sure.
Grant: Has your life changed much since Asia first ran into trouble over a year ago?
Grandma: Not really, but what does that have to do with our investment in the Muhlenkamp Fund?
Grant: Everything.
Grandma: What do you mean?
Grant: Ron Muhlenkamp has preached to me for five years that Main Street drives Wall Street and I'm starting to believe him. The things you, Granddad and every other American do in your daily lives affect corporate earnings, which affect stock prices. What have you been buying lately?
Grandma: Well, we bought our first computer and got on the Internet. We also bought your daughter plenty of clothes and toys for Christmas.
Grant: So, Asia and Brazil have yet to slow you down?
Grandma: Thus far it hasn't mattered.
Grant: If earnings are good for a group of companies, eventually the stock prices of those companies will go up. If earnings for another group of companies are down, then you can expect that the stock prices of those companies will fall, and probably fairly quickly. However, the markets often try to predict earnings before they actually come in, and this can lead to overpricing and underpricing of various securities in the short-term. In the long-term, the behavior of Americans sets corporate values and stock prices.