

still argue the merits of free markets and "Reaganomics," but the rest of the world has few doubts and is rapidly following suit. If the experiences of the US since 1930, Japan since 1945 and, Korea since 1952 are any indication, the world is about to witness an era of unprecedented economic growth and prosperity. The common threads that I find in the above examples are peoples in the modern industrial age with recent memories of hard times, security in their homes, and the opportunity to benefit themselves and their children through free enterprise.

If the Chinese, for example, are allowed by their government to benefit from their own efforts, they will do so to the benefit of us all.

Finally - World Peace

A friend of mine recently attended a conference attended by George Schultz (now Secretary of State), Harold Brown (Carter's Secretary of Defense) and addressed by Senator Robert Packwood. The focus was Russia Glasnost and military de-escalation, and whether these shifts are temporary or will endure. The above gentlemen see two major changes that convince them that Glasnost will last.

First, the Soviet Union sees improvement in other nation's economies, including the Chinese, and fears it will be unable to maintain "superpower" status unless it improves its own economic base. This thesis, summarized in Paul Kennedy's book "The Rise and Fall of the Great Powers" argues that military strength must be founded on economic strength to be enduring. Reagan's foreign policy successes are directly attributable to his economic successes. The old boy had his priorities right after all!

The second argument is that Gorbachev the first Russian leader since Khrushchev young enough to still be around when the payoffs of a

major change are realized. Seventy-two-year-old leaders seldom make drastic changes in any organization.

So where are we today? Inflation comes from growing money faster than goods and services. No country has ever had rapid money growth without inflation. Inflation usually lags behind money growth by 12-24 months. Since early 1987, money growth in the US has been 4-6% by nearly all measures. Real GNP growth has been positive, so inflation above 5% is unlikely, at least in the next year or two. The economy is slowing to the Fed-targeted 2.5% growth rate. Presumably, when the 2.5% level is reached, short-term interest rates should move no higher and may start down.

Long-term Treasury rates remain at a high 9% vs. inflation of less than 5%, partly due to high debt levels. A stable dollar indicates these rates are attractive to foreign investors.

A recent rise in short rates, accompanied by a modest decline in long rates, indicates that long bond buyers may be anticipating a turn in short rates. We're doing the same and have begun buying long bonds.

The elections are over, we opted for the fewest changes possible and Bush seems to be making a good start. Corporate earnings are about to be reported. We expect individual stocks to respond to both unexpectedly good and unexpectedly poor reports. By way of perspective, in the 1960's after inflation was stable for a decade, Wall Street believed that stocks rose and fell on earnings alone. We continue to monitor earnings, look for good companies, set prices at which we'll buy and urge our Congressmen and our children to spend less money.

It's a...Mutual Fund

At exactly 2.30 P.M. on November 17, 1988, after a long gestation mid hard labor, Muhlenkamp Fund was born. On that date, the Securities, and Exchange Commission declared our no-load, total-return mutual fund effective. We would like to thank all of our initial shareholders for waiting patiently for the effective date, and invite anyone with funds to invest or an interest in the happenings at Muhlenkamp to call us at (724) 935-5520 for a prospectus. It took a while to produce, but it's a beauty and we're proud of it!

During the gestation period, we answered many questions about our new fund. For all the people unfamiliar with mutual funds, Muhlenkamp A Company, or managed investing in general, we decided to put the questions and answers on paper:

Why did you bring out a Mutual Fund?

We manage assets for people in the stock and bond markets. In those markets, to be reasonably diversified requires about \$200,000. Not everyone has \$200,000! Those who don't can best participate by pooling their assets with those of other people in a fund. Over the years, a number of people have asked us to invest sums of \$5,000 - \$50,000 for them, but we didn't have the appropriate vehicle so we usually sent them to someone else. Since we

would like to make these people our clients, we decided to start our own fund.

Will this be a Stock Fund or a Bond Fund?

Muhlenkamp Fund is a Total Return Fund. Most of the time, the focus will be on common stocks. But should interest rates rise high enough to make bonds more attractive than stocks, as occurred in the recent past, we have the flexibility to own bonds. Should we be unable to find stocks or bonds which meet our investment criteria, we will hold cash equivalents such as T-Bills, Certificates of Depositor commercial paper. The mix of stocks, bonds, and cash, equivalents will change as we perceive changes in the attractiveness among them.

Is that to be diversified?

Partly. But more important is the value received. Remember that behind each of these pieces of paper is a company. Someone who owns General Motors stock, General Motors bonds and General Motors commercial paper is less diversified than someone who owns stock in General Motors, PNC Financial and Phillip Morris. Day-to-day, these stocks may act alike, but over time each will reflect the success of the underlying company. Far too much emphasis is placed on the day-to-day prices of "stocks" instead of the longer-term values of companies.

Would you ever own Gold or Real Estate?

Not directly. But we might own shares of companies that produce or trade gold or shares of Real Estate Investment Trusts.

But some people have turned sour on Mutual Funds!

Don't confuse the vehicle with the underlying investment. A mutual fund is a vehicle that allows a number of people to pool their assets. The underlying investment can be common stocks, bonds, real estate, commodities, etc. Historically, the public embraces each area after the prices have run up, and rejects them after the prices have declined.