



**Muhlenkamp & Company, Inc.**  
Intelligent Investment Management

Performance data as of September 30, 2008

## Overview

### Style

All-Cap

### Objective

Maximize total return, consistent with reasonable risk.

### Strategy

Invest in the common stock of highly profitable companies, as measured by Return on Equity (ROE), that sell at value prices, as measured by Price-to-Earnings Ratios (P/E).

## Portfolio Manager

Ronald H. Muhlenkamp, CFA



Mr. Muhlenkamp has been active in professional investment management since 1968. He is a CFA, and a graduate of both M.I.T. and the Harvard Business School.

## Portfolio Characteristics

Average ROE	26.69%*
Long-Term Earnings	12.40%*
Average Projected P/E	9.90*
Portfolio Turnover	41%**

\* Source: Bloomberg as of 9/30/08

\*\* Unaudited, Trailing 12 Months

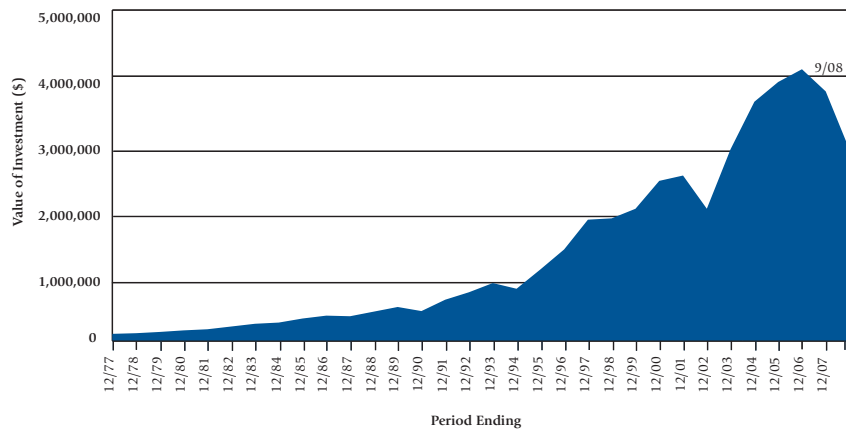
**Return on Equity (ROE)** is a company's net income (earnings), divided by the owner's equity in the business (book value).

**Price/Earnings Ratio (P/E)** is the current stock price divided by the earnings per share.

## For Further Information

**Investment Adviser**  
Muhlenkamp & Company, Inc.  
5000 Stonewood Drive, Suite 300  
Wexford, PA 15090-8395  
(877)935-5520  
website: [www.muhlenkamp.com](http://www.muhlenkamp.com)

## Average Growth of a \$100,000 Investment Since December 31, 1977



This chart illustrates the performance of a hypothetical \$100,000 investment made on December 31, 1977, and assumes reinvestment of dividends and capital gains. This chart does not imply future performance.

## Annualized Performance (net of fees) as of 9/30/08

	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years
Average Account	-23.42%	-30.20%	-9.37%	2.93%	5.82%	8.18%

Consolidated performance for all discretionary accounts with dividends and other earnings reinvested. Performance figures reflect the deduction of broker commission expenses and the deduction of investment advisory fees. Such fees are described in Part II of the adviser's Form ADV. The advisory fees and any other expenses incurred in the management of the investment advisory account will reduce the client's return.

It should not be assumed that recommendations made in the future will be profitable or will equal the performance of the above accounts. A list of all security recommendations made within the past twelve months is available upon request.

## Average Annual Total Returns (net of fees)

2007	-8.18%	1992	18.30%
2006	4.94%	1991	38.70%
2005	8.26%	1990	-12.20%
2004	24.78%	1989	16.00%
2003	45.24%	1988	19.10%
2002	-20.13%	1987	-2.40%
2001	3.34%	1986	13.10%
2000	21.19%	1985	22.70%
1999	8.10%	1984	7.20%
1998	1.10%	1983	19.70%
1997	32.70%	1982	24.40%
1996	28.20%	1981	11.10%
1995	37.30%	1980	18.30%
1994	-9.90%	1979	17.30%
1993	19.00%	1978	9.90%



**Muhlenkamp & Company, Inc.**  
*Intelligent Investment Management*

## Quarterly Letter

I'm writing this letter just after the U.S. Senate and House passed the "bailout" bill. The media and the politicians have labeled the Treasury's Troubled Assets Relief Program (TARP II) as a bailout of Wall Street. But, in reality, it's a support for the banking system and is designed to keep the problems in the credit markets from overflowing into Main Street. In the past few weeks, this overflow had begun, making it difficult for some firms to get normal funding from their banks. For this reason, I believe the bill was necessary.

In this short letter, I don't have the time to describe all the drivers that got us to this place. We will do that at our seminar on November 18, 2008. But I do want to mention a couple of the main drivers which reinforced each other and drove us to where we are now.

In 2005, the Financial Accounting Standards Board (FASB) issued FASB #157 which states that banks, insurance companies, and brokers must mark the value of the assets to market prices in their quarterly and annual reports. Regulations for each of these industries limit the amount of business they can do and the liabilities they can carry is a multiple of the assets and/or equity. Thus, FASB #157 allowed firms to expand their business as the market prices of their assets moved up, and forced them to contract their business as market prices moved down. This has become self-feeding.

Had we a similar accounting rule in effect in 1989, nearly every S&L and bank in the country would have been bankrupt. Most of you know that, in the 2005-2007 period, banks and mortgage brokers made mortgages and, therefore, home ownership available to people who could not have afforded a home by prior standards. (You may know that Congress mandated that mortgages be made available to low income people.) As some of these mortgages failed, the market value of the remaining mortgages fell. Any that were owned by financial firms, (banks, insurance companies, or stockbrokers), had to be "marked to market," forcing the firms to raise capital or sell assets. Most had to sell assets — into a vacuum of no buyers. This caused further mark-down and the spiral began. Some managed to raise capital. Merrill Lynch got \$12 billion from Korea, Kuwait, and private investors. Citigroup got \$12 billion from Abu Dhabi; Washington Mutual got \$7 billion from a hedge fund, TPG, Inc. Within eight months, each of these investors lost over 30% of their purchase price, discouraging other potential investors.

The Treasury's Troubled Assets Relief Program (TARP II) just passed by Congress directs the Treasury to buy mortgages from their current holders. This should halt the downward spiral in prices. Anyone who frequents auctions where the seller is forced to sell knows that they can be a great spot to pick up bargains. We think it is quite likely that buying at today's prices and holding for 3-5 years will make the buyers, including the U.S. Treasury, a lot of money.

Note that the current problem began in the sub-prime mortgage market, then, migrated to other markets. The people who held and hold sub-prime mortgages had to sell something. As the spiral continued, they had to sell more. This decline spread from mortgages to corporate banks to stocks, both domestic and foreign. As the value of assets got marked down, banks and companies became fearful of lending to each other. They are fearful because they don't trust the value of each other's assets, largely because they don't know what the market price of their own assets will be tomorrow. At present, the credit markets are locked up. The TARP II bill is designed to unlock the markets.

We've been saying for some time that we see good / great companies selling at cheap prices, only to see the prices get cheaper. If / as we see signs that TARP II is working, we will be putting our cash to work in some of these companies.

*The comments made by Ron Muhlenkamp in this article are his opinion and are not intended to be investment advice or a forecast of future events. Copies of past newsletters are available at [www.muhlenkamp.com](http://www.muhlenkamp.com).*

*As of 9/30/08, the company did not hold any of the securities mentioned.*

*Company holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk.*

## Top Ten Holdings as of 9/30/08

Company	Industry	% of Net Assets
International Business Machines	Computers & Equipment	5.33
Oracle Corporation	Information Software & Services	5.30
Harris Corporation	Communications Equipment	5.08
Berkshire Hathaway, Inc.	Insurance	4.92
Cisco Systems, Inc.	Communications Equipment	4.81
Corning, Inc.	Communications Equipment	3.29
Caterpillar, Inc.	Machinery	3.27
Transocean, Inc.	Energy Equipment & Services	3.26
Legg Mason, Inc.	Financial Services	3.16
General Electric	Industrial Conglomerates	3.08

*Holdings are subject to change and are not recommendations to buy or sell any security.*

**Quasar Distributors, LLC., Distributor 10/08**