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Issue 49 First Quarter 1999

On January 25, 1999 the Net Asset Value of the Muhlenkamp Fund was $38.53, up 2.3% year to date.

Shareholder Conference Call

Ron Muhlenkamp will host a Muhlenkamp Fund shareholder conference call on Thursday, February 18, at 7pm, EST. After a brief summary, Mr. Muhlenkamp will entertain questions from shareholders. To participate, you must first pre-register between now and the time of the call at 1-800-925-8000. After registering, you will receive the toll free number and password for the February 18, conference call.

Ron Muhlenkamp To Present Keynote Address

Ron Muhlenkamp will present the keynote address on February 20, at the 1999 Cleveland MoneyWatch Investment Conference sponsored by the *Cleveland Plain Dealer*. Check the *Plain Dealer* for registration forms or call 1-888-701-5463 ext. 2247 for more details.

Atlanta Seminar

Lisa Muhlenkamp-Cox is hosting an event in Atlanta on Thursday, February 25, at 7pm, for clients, shareholders and others interested in learning more about our investment perspective. Ron Muhlenkamp will be on hand to present his “Understanding the Current Investment Climate” seminar. Please call Lisa at 1-800-860-3863 ext. 122 to reserve your place.

Withholding for IRA Distributions

The IRS requires the Muhlenkamp Fund to withhold 10% on all distributions from IRA accounts, unless you instruct us not to withhold. Call for an IRA Distribution request form or include the following statement in your Letter of Instruction. "I elect not to have withholding apply to my IRA distribution." Please call us if you have any questions.

Quarterly Letter

1998 was a challenging year in the investment markets. We got it partly right and partly wrong.

The markets started the year very strongly. In the April 1998 *Muhlenkamp Memorandum,* we wrote:

> "At yearend, we judged U.S. stock prices to be fair based on 1997 earnings. We now judge prices to be fair based on 1998 estimated earnings. Since it's only April, there is ample time for normal (5-10%) market corrections this year. We don't expect a decline greater than 10%, because the trends in GDP and inflation remain positive. In summary, prices are fair; the long-term and intermediate-term trends are positive; in the short-term we expect prices to be volatile."

Generally speaking, we got the economic part right. GDP growth remained positive and inflation continued to decline. We said that you didn't want to be a U.S. producer selling to Asia. We also said the U.S. consumer buying from Asia was in good shape. So, the broad-based economic numbers we got right.

We failed to foresee the dramatic decline in the prices of world tradable goods including; oil, grains, metals, paper and chemicals. The prices of these goods fell much faster and much farther than we anticipated. The stock prices of companies serving these industries also fell farther and faster than we anticipated. We were hurt by that: specifically in the stocks of oil service companies and manufacturers of farm equipment. We also failed to foresee the default by Russia on their government debt, and the impact that had on the investment markets. The Russian economy and Russian debt are very small parts of the world economy and world investment markets, but Russia's default was the first default on debt by a government in many years. It had a dramatic effect on the worldwide debt markets. This effect was greatly magnified by the widespread ownership of emerging market government bonds by hedge funds, which bought them with borrowed money.

(*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.

(Dialogue continued)

GRANDMA: How so?
GRANT: If people continue to buy computers like you have just done and computer makers are able to earn a profit from these sales, then eventually the shareholders of these computer makers will earn some sort of return on their investment. In the long run, the size of that return will depend upon the purchase price.
GRANDMA: Will Americans quit spending if they get fearful of the future?
GRANT: Good question. In 1990 (during the Gulf War) they did. In 1987 and 1994, when we had sizable downswings in the stock and bond markets, consumers didn't quit spending. So far there aren't many signs that point to a slowdown in consumer confidence and spending. What are other people you know doing?
GRANDMA: Your mother put in a new kitchen and bought some new furniture. Your aunt and uncle bought a new motor home. You've been flying all over the country on business. Your other aunt and uncle just built a house.
GRANT: Is anybody you know investing his or her money?
GRANDMA: Sure. Everybody is looking for better returns than the bank offers.
GRANT: Through the Muhlenkamp Fund we are all benefiting from all of the activities you just mentioned.
GRANDMA: In what way?
GRANT: The Fund owns common stock in airlines, cabinetmakers, furniture makers, and motor home manufacturers. The Fund also owns stock in many of the companies that retail investment and mortgage products to the public, like banks, brokerage and insurance companies.
GRANDMA: What about your cousins in the steel mills, couldn't things get tough for them?
GRANT: They might, but commodities like steel represent only about 20% of the U.S. economy today. The sad thing is that lower commodity prices may hurt 20% of workers, but it has improved the lives of the other 80%.
GRANDMA: How so?
GRANT: The other 80% have experienced a price reduction in food, clothing, fuel, mortgage interest rates, and many other items over the last year. This increased their purchasing power and partially helped boost our economy.
GRANDMA: Back to the Muhlenkamp Fund. My IRA rollover is still below what I purchased it for in May.
GRANT: What about the account you opened in 1994, how is it doing?
GRANDMA: Oh, it's more than doubled in value, but my IRA is what I'm worrying about. When will it come back?
GRANT: I'm not sure, but the difference in your two accounts is time. We've had over four years to work on the first account, and only a few months to work on the IRA. Didn't we discuss having a 3-5 year time horizon on your investments back in 1994?
GRANDMA: Yes, but why didn't the Fund protect my assets from losing value in 1998?
GRANT: It gets back to the difference between short-term and long-term market psychology. In 1994, the earnings for the companies held by the Muhlenkamp Fund increased nicely, however, their stock prices declined when the Fed raised interest rates 3 times and the markets wrongly anticipated a recession. The markets tried to predict the future instead of waiting to see the reality. In 1994 the Fund looked dumb, but from 1995 to June 1998 it looked pretty smart holding many of the same companies as in 1994. In 1998, the earnings for most of our companies did well, but the market took many of them down on fears of recession/depression. Eventually the market will realize the true value of these companies, but you need to have patience. Do you need this money in the next year or so?
GRANDMA: It's not likely.
GRANT: Is it at all reassuring to know that all of my personal assets and my entire pension plan are invested in the Muhlenkamp Fund along with a good portion of your money?
GRANDMA: Yes it is. I know you will not let us lose our money.
GRANT: I know it is tough to hang in there with these volatile markets, but I hope you believe that we will put your best interests above everything else. All I ask is that you have faith and patience in our approach and give us a while longer to work for you.
GRANDMA: I guess we'll just have to wait things out. Now go take care of your little girl and give her a big hug and kiss for Grandma and Granddad.

We've been having similar conversations with many of our other clients and shareholders, especially those of you who opened accounts within the last year. All we ask of you is that you give us the necessary 3-5 year time horizon to grow your assets. This long-term approach has served our clients and shareholders well for over 20 years. If you look at the companies we're invested in and how they're doing, rather than just the current stock price, it may help you weather the current uncertainties. We appreciate your confidence in Muhlenkamp and look forward to working with you to meet your long-term financial goals. -- *Grant Duffield*

MUHLENKAMP FUND AVERAGE ANNUAL RETURNS AS OF 12-31-98

One Year	Three Year	Five Year	Ten Year
3.22%	*21.38%*	*17.16%*	*15.43%*

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.