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INTELLIGENT INVESTMENT MANAGEMENT
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**On July 24, 2000 the Net Asset Value of the Muhlenkamp Fund was $46.30, up 12.6% year to date.
click here to see the current Net Asset Value of the Muhlenkamp Fund.**

SCHWAB IMPACT 2000 CONFERENCE

The Muhlenkamp Fund is sponsoring an exhibit booth at the Schwab Impact 2000 Conference for financial advisors in Denver, September 17-20. Ron Muhlenkamp and Grant Duffield will attend the conference. If you are a financial advisor planning to attend this conference, click here to contact via e-mail or phone us at 877-935-5520 ext. 112 to arrange a meeting.

WSB RADIO - MANAGING YOUR MONEY SHOW

Lisa Muhlenkamp-Cox will host a booth at the WSB Radio - Managing Your Money Show at the Cobb Galleria Center in Atlanta, Georgia on Saturday, September 16. Information and tickets are available at www.wsbradio.com or by calling Lisa at 404-373-9894.

TUCSON INVESTMENT CONFERENCE

Ron Muhlenkamp will be a featured speaker at the Arizona Daily Star's Moneywise Investment Conference on Saturday, October 21, at the Sheraton El Conquistador Resort in Tucson. Contact the newspaper for more details.

UPDATES VIA E-MAIL

You can receive our quarterly newsletter and notices of other important Muhlenkamp news and events via e-mail. Click here to subscribe and send us your mailing address and e-mail address so we may add you to our e-mail list.

QUARTERLY LETTER

The trends we wrote about three months ago continue.

Inflation remains under control.

The economy, while still expanding nicely, is moderating from the growth rates of the Fourth Quarter of 1999 and the First Quarter of 2000. This allows the Fed to adopt a "wait and see" attitude and makes further hikes in short-term interest rates questionable.

Long-term treasury rates peaked at 6.7% in January and are now at 6%. Long-term corporate rates peaked in May and they, too, have rolled over; so the bond market has bottomed. Historically, after the bond market bottoms, financial stocks (especially the big banks and big brokers) outperform bonds which is why we own financial stocks instead of bonds. This pattern is holding true this year.

The "hype" stocks (internet, telecom, and biotech) peaked in March and suffered a severe correction. Since then, stocks of the best of these companies have rallied. Everything else remains decimated. As examples, the two stocks we mentioned in January (Muhlenkamp Memorandum 53), Freemarkets and Qualcomm are now at $54 and $64, down from peaks of $370 and $200, respectively.

With the decline in "hype" stocks, the market has begun to look elsewhere for ideas. A broader list of stocks is doing better, some of which we own. We have been benefiting from owning leading financials and certain energy related stocks. We expect the strength in financials to gradually rotate to smaller companies, and a broader list of stocks to do well as the fears of higher inflation and/or a hard landing dissipate. We expect the markets to be selective and expect the high daily market volatility to continue. We think it is a very good opportunity to put money to work. -- *Ron Muhlenkamp*

Social Security Revisited

In 1992 we published an essay (in Muhlenkamp Memorandum 24) entitled "Social Security by the Numbers." As with all government programs, we find the numbers much more understandable when viewed on a per person or per family basis. (I've become convinced that articles describing large amounts of money in terms of dollar bills stacked to the moon are attempts to make the numbers seem incomprehensible, and therefore not amenable to understanding or a solution.) So we set out to answer two basic questions: "What did I pay into it?" and "How much can I expect to get?"

Since we are, once again, in an election year, it seems a good time to update the data. This is particularly true as increasing numbers of people are becoming aware that Social Security, as presently configured, is unsustainable.

First, the numbers:

1. "What did I pay into it?"
The table shows the maximum Social Security & Medicare tax paid by an employee each year since the system started in 1937. Equal amounts were paid by the employer. If you want the exact numbers for your account, call the Social Security Administration at 800-772-1213 or visit their website at www.ssa.gov to get a request form. (Note: It's unlikely that people paying Social Security taxes today also paid them in 1937 - 63 years ago - but we believe it's useful to print the entire table.)

Our regular readers know that historic numbers must be adjusted for inflation. This we have done for you, thus the 1937 contribution of $30 represents $343 in 1999 purchasing power. Totals for each column are shown at the end of the table.

2. "How much can I expect to get?"
The Social Security website (www.ssa.gov) states that a single person retiring in 1999 at age 65, who had always paid in the maximum, would receive $17,196. A married couple (with a non-working spouse) would receive $25,800. Those who paid less than the maximum would receive less. (It's interesting to note that the average Social Security wage earner earned $29,500 in 1999; he and his employer would have paid 2 x 7.65% or $4,513 to Social Security.)

Dividing the maximum annual benefit into the inflation adjusted total contribution from employee and employer of $270,890 show that an individual retiring today can expect to get all of his/her money back in 16 years, a married couple in 10 1/2 years. But the life expectancy of a male age 65 is 20 years, a female is 24 years and these benefits are promised for life.

Note that a couple who retired in 1992 has already received back all their lifetime contributions, plus those of their employer, all adjusted for inflation. But they have a joint life expectancy of another 17 years. They have been promised benefits greater than 3 times what they paid in, regardless of need. That's a problem.

The Social Security problem is a result of two inherently incompatible viewpoints: First, Social Security was established as, and is viewed as, Social Insurance - a way of providing for those in need. It is a depression era program designed to keep older people out of the poor house. Any discussion of benefits soon becomes a discussion of those who need the money for subsistence living.

Second, Social Security has come to be viewed as a Pension Plan whereby "I'm entitled" to benefits because, "I paid in all those years." This was not the original purpose of the program. In fact, FICA stands for 'Federal Insurance Contributions Act'.[1]

When we ask people which is the primary purpose of Social Security, those over 50 tend to focus on Social Insurance, those under 40 tend to focus on the Pension Plan, but nearly all believe that both aspects are important.

But Insurance Plans and Pension Plans are very different concepts using very different assumptions. A Pension Plan involves setting money aside over a period of years, investing it to grow its value in real terms (i.e. versus inflation and eventual taxes) so that assets available in retirement are a direct result of the assets set aside and the returns earned on those assets in the interim. The person receiving the pension can spend more than he put in (in real purchasing power) only if the invested returns exceed the interim inflation and the taxes paid upon withdrawal.

An insurance plan is entirely different. In a property insurance plan, such as fire and casualty insurance, those who suffer the loss receive more than they paid in because those who don't meet the criteria (suffer the loss) receive nothing. I do not want to collect on my fire insurance, nor do I feel "entitled" to collect, unless I have a fire. Similarly, I do not want to "need" Social Security benefits. But they've been promised to me whether I need them or not.

In 1939, when the Social Security Act was passed, life expectancy was 63 years. Congress set the age at which benefits began at 65 in the full expectation that more than half the people would receive no benefits (because they would die before age 65). This is how an insurance plan works - a minority receives more than they paid in because a majority receives less than they paid in.

At that time there were 40 workers for each retiree, so it was easy to give a retiree a useful benefit because it was spread among 40 workers (at the rate of 1% on the first $3,000 in annual pay = 30/year or $343/year in current dollars, matched by the employer). Sounds like a valid insurance plan, doesn't it? And it

Year	Covered Earnings	Tax Rate on Earnings	Tax in $	Tax in 1999 $
1937	$3,000	1.00%	$30	$343
1938	3,000	1.00	30	348
1939	3,000	1.00	30	354
1940	3,000	1.00	30	350
1941	3,000	1.00	30	334
1942	3,000	1.00	30	302
1943	3,000	1.00	30	283
1944	3,000	1.00	30	280
1945	3,000	1.00	30	273
1946	3,000	1.00	30	253
1947	3,000	1.00	30	221
1948	3,000	1.00	30	204
1949	3,000	1.00	30	205
1950	3,000	1.50	45	306
1951	3,600	1.50	54	341
1952	3,600	1.50	54	334
1953	3,600	1.50	54	332
1954	3,600	2.00	72	439
1955	4,200	2.00	84	514
1956	4,200	2.00	84	506
1957	4,200	2.26	95	550
1958	4,200	2.26	95	536
1959	4,800	2.50	120	674
1960	4,800	3.00	144	797
1961	4,800	3.00	144	789
1962	4,800	3.13	150	813
1963	4,800	3.63	174	932
1964	4,800	3.63	174	919
1965	4,800	3.63	174	904
1966	6,600	4.20	277	1,399
1967	6,600	4.39	290	1,425
1968	7,800	4.40	343	1,617
1969	7,800	4.79	374	1,673
1970	7,800	4.79	374	1,581
1971	7,800	5.21	406	1,641
1972	9,000	5.20	468	1,833
1973	10,800	5.85	632	2,331
1974	13,200	5.85	772	2,567
1975	14,100	5.85	825	2,512
1976	15,300	5.85	895	2,579
1977	16,500	5.85	965	2,611
1978	17,700	6.05	1,071	2,690
1979	22,900	6.13	1,404	3,169
1980	25,900	6.13	1,588	3,158
1981	29,700	6.65	1,975	3,561
1982	32,400	6.70	2,171	3,685
1983	35,700	6.70	2,392	3,935
1984	37,800	6.70	2,533	3,992
1985	39,600	7.05	2,792	4,247
1986	42,000	7.15	3,003	4,483
1987	43,800	7.15	3,132	4,509
1988	45,000	7.51	3,380	4,674
1989	48,000	7.51	3,605	4,757
1990	51,300	7.65	3,924	4,927
1991	53,400	7.65	4,085	4,915
1992	55,500	7.65	4,246	5,010
1993	57,600	7.65	4,406	5,062
1994	60,600	7.65	4,636	5,183
1995	61,200	7.65	4,682	5,102
1996	62,700	7.65	4,797	5,080
1997	65,400	7.65	5,003	5,188
1998	68,400	7.65	5,232	5,358
1999	72,600	7.65	5,554	5,554
			$84,339	$135,445

was, as long as the assumption held. But as life expectancies improved, the number of workers per retiree fell to 10 in the 1960s and 3 in the 1990s. That's why the contribution per worker increased by 5 times from 1937 to 1968 and has tripled since. In 20 years, the expected ratio of 2 workers/retiree will require a 50% increase from today's workers contribution if current promises are to be kept.

But it's only a promise.

Social Security has never been run as either a pension plan or as an insurance plan. It has always been "pay as you go," a transfer of money from workers to retirees. One man explained to me that it's both a pension plan and an insurance plan, "...except for the fact that there are no assets, only IOU's in the trust. The IOU's in the trust will have to be paid with increased tax revenue or new taxes." Exactly! Social Security has no assets. The benefits promised are simply a political promise - a political promise to raise taxes, on our children and our grandchildren.[2] But that assumes that our children will continue to work and continue to hire others, regardless of the tax rate.

But we didn't. In the 1970s, when the top tax rate in the U.S. was 70%, we had 10% unemployment and a stagnant economy, because it didn't pay the most productive members of our economy to hire other people. So they put their money into unproductive schemes designed to minimize taxes (tax shelters) and took time off to play golf. Over the past 20 years, I've asked thousands of people, in groups of a few to a few thousand, how many would continue to work at a 50% tax rate. Until the past 3 years, 2-5% of hands were raised. In the past 3 years, I've seen one hand go up. If we aren't willing to work at a 50% tax rate, why do we assume our children will be willing to work at a 50% tax rate?

The real choice today is not how to save Social Security in its present form. It can't be done without driving us to the stagnation of the 1970s.

The real choice is:

Would you rather live in the economy of the 1970s with 10% unemployment and rely on the promise of Social Security? Or would you rather live in the economy of the 1980s and 1990s and not need Social Security?

The benefits of Social Security can be saved by splitting it into two parts; a pension plan and an insurance plan.

1. A pension plan - which allows private accounts the individual owns and is able to invest for decent returns. These accounts would look much like IRA's but the contribution would be mandatory (and carved out of the Social Security contributions).

2. An insurance plan - for which the benefits are need

Social Security (continued)

based. For example, anyone with annual income greater than twice the national average or assets greater than 20 times that (which at a 5% rate would support spending at 2x the national average income) would not receive Social Security. Should their income or assets fall below these levels; they would once again be eligible for benefits. Today, those levels for an individual would approximate $60,000 in income or $1.2 million in assets.

For the multi-millionaire who reads this and fears that I'm cutting off your benefits, you're right. But consider that you're now paying income tax on these benefits at a 28-40% rate and can expect your estate to pay tax on the remainder at 35-55%. So the dollar which is promised to you will become $0.60 - $0.72 after income taxes and $0.27 - $0.47 after estate taxes. And, under my plan, the promise is more likely to be kept should you actually need Social Security. -- *Ron Muhlenkamp*

1 In Fleming vs. Nestor (1960) the Supreme Court ruled that Americans have no property right to the money we've paid in Social Security taxes.

2 I've been told by a man who was in his late 20's in 1937 that the reason Congress made all the wage earners eligible was that they feared that benefits based on need would be considered welfare and they wanted to avoid the stigma of welfare. (This implies that there is no stigma to welfare if everyone is on it.) The fact that benefits have been promised to everybody who paid in may help explain why some have come to view Social Security as a pension plan.

IRA Fee Reminder

All Muhlenkamp Fund IRA's are subject to a $10 annual maintenance fee (capped at $20 per Social Security number), which will be deducted from your account(s) on September 29, 2000. You have the option of paying your annual IRA maintenance fee by check, but it must be received by September 15, 2000. Send your check made payable to "Firstar Trust Company" to: Firstar Mutual Fund Services, P.O. Box 701, Milwaukee, WI 53201-0701. Include your Muhlenkamp Fund account number on the memo line of your check and indicate that the payment is for your "IRA Fee." Please call (800) 860-3863, if you have any questions regarding this fee.

Muhlenkamp Fund Average Annual Returns as of 6-30-2000

Click here to see current performance information for the Muhlenkamp Fund.

One Year	Three Year	Five Year	Ten Year
8.30%	***13.98%***	***20.69%***	***16.37%***

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.

Legislative Update

We urge you to contact your Congresspeople and the White House regarding the following legislative actions currently underway:

Death Taxes - Under current federal law, estates worth over $675,000 are taxed at 35-55% upon the owner's death. The House and Senate recently passed legislation that would eliminate federal estate taxes over the next ten years. President Clinton has threatened to veto this bill.

Expanded IRA's and 401(k)'s - Contribution limits to IRA's have stood at $2,000 since 1981. The House just passed a bill (H.R. 4843) that would incrementally raise the annual contribution limit for Roth and Traditional IRA's to $5,000 by 2003. People age 50 and up would be allowed to contribute the full $5,000 to their IRA's in 2001. The bill also expands contribution limits for 401(k) plans. President Clinton vetoed a similar bill last year and has threatened to veto this bill.

Mutual Fund Tax Relief - By law, mutual funds must distribute all ordinary income and realized capital gains as dividends to shareholders. These distributions are generally taxable to shareholders in the year they are received. The House has taken up a bill (H.R. 4723) that would allow a mutual fund shareholder to exclude up to $3,000 of mutual fund capital gain distributions from current taxation ($6,000 for joint returns), as long as the amounts are automatically reinvested in the mutual fund's shares. Shareholders would remain responsible for the capital gains tax when they sell their shares.

SEC Transaction Fees - Mutual funds and corporations pay the Securities and Exchange Commission (SEC) a fee to register their shares. The SEC also collects a fee when shares of securities are traded on the exchanges. These fees add to the overall expenses for running a mutual fund, which mutual fund shareholders end up paying. These fees were intended to cover the operating costs of the SEC; however, the SEC's annual budget is only $370 million and the fees collected amount to $1.8 billion annually. The Senate Banking Committee is looking at a bill (S 2107) to reduce these fees.

U.S. House of Representatives
(202) 225-3121
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U.S. Senate
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White House
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