

MuhlenkampMemorandum

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On December 31, 2004 the Net Asset Value of the Muhlenkamp Fund was \$78.97, up \$15.46 for the year.
[Click here](#) to see the current Net Asset Value of the Muhlenkamp Fund.

Quarterly Letter


In preparing to write this letter to you each quarter, I review my letters from prior quarters. It helps my perspective. I recommend that you do the same. In particular, I'd suggest you read the letters since April 2003 (*Muhlenkamp Memorandum #66*).

In Memorandum #66 we explained the methodology we use in determining fair values for bonds and stocks. Since then, we've maintained that inflation in the U.S. is on the order of 2%. Hence, we believe that short-term interest rates should move up to a 3% range and the long-term treasuries (the 30-year) are appropriately priced to yield about 5%. We also concluded that, on average, common stocks were/are priced to return about 8%-9%, which we view as fair.

We have further argued that the economy was/is recovering from a "normal cyclical recession" and that the litany of problems which are featured on the news would not throw it off track. Much of this has come to pass; we think the trend continues.

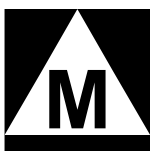
We have been able to benefit from the uncertainties in the marketplace. Emotional moves such as we witnessed in 1999 (up) and 2002 (down) often result in a lot of stocks being mispriced: some priced much too high, others priced much too low. We've been able to benefit as many of these stocks have trended toward fair value. The bad news is that we're finding fewer and smaller bargains than we did two years ago.

A few months ago, I was asked what it would take to turn me bearish. I replied, "Give me something to worry about that we aren't already worried about."

In the meantime, the economy continues to expand, interest rates are doing what they should and our companies continue to do well. We expect to do well along with them. 

— Ron Muhlenkamp

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 on our website at www.muhlenkamp.com.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

Announcements

Muhlenkamp & Company, Inc. wishes our readers a peaceful and happy New Year.

Management Fee Breakpoint

For the fiscal year ended December 31, 2004, the Adviser (Muhlenkamp & Company, Inc.) received management fees of 1% per annum of the Muhlenkamp Fund's average daily market value of its net assets. Effective January 1, 2005, the Fund's management fee is 1% per annum of the average daily market value of the Fund's net assets up to \$1 billion and 0.9% per annum of those net assets in excess of \$1 billion.

2004/2005 IRA Contributions

You have until your tax deadline, April 15, 2005 for most individuals, to fund your IRA for 2004, including Traditional, Roth and Coverdell Education Savings Accounts.

Starting in 2005, IRA contribution limits have increased: Traditional and Roth IRA limits are now \$4000 with an additional \$500 for "catch-up" contributions. The limits for other types of retirement accounts have also increased. If you need more information, IRS Publications 560 and 590 are good sources of information. You can download copies of these publications at <http://www.irs.gov>.

It's not too early to begin funding your 2005 IRA. Equity returns compounded over long periods can be truly amazing.

Pittsburgh Winter Seminar

Visit the "Slide Show" section of our website to view Ron's presentation *Musings on Economics and Investing*, delivered on Thursday, December 2, 2004. While there, take time to review Ron's responses to frequently asked questions along with audience-asked questions taken at the seminar.

Atlanta Seminar

Join Ron and Lisa Muhlenkamp-Cox at Atlanta's Marriott Century Center, Tuesday, February 1, at 7:00 p.m. for Ron's presentation *Musings on Economics and Investing*. To register, please visit www.muhlenkamp.com or call (877) 935-5520 extension 4.

The WORLD Money Show

Join Ron and Tony Muhlenkamp at the World Money Show, February 2-5, at the Gaylord Palms Resort in Orlando. Stop by one of the workshops and visit us at exhibit booth #1004.

To register for free admission, simply call InterShow at (800) 970-4355 or visit www.moneyshow.com and reference priority #003717.

MuhlenkampMemorandum

This essay was originally published in October 1992, updated in July 2000 and January 2005.

Social Security by the Numbers

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. So we set out to answer two basic questions: "What did I pay into it?" and "How much can I expect to get?"

As the topic of Social Security is now on the agenda in Washington D.C., it seems like 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?"

Table 1 shows the maximum Social Security 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 (SSA) 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 – 68 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 \$384 in 2004 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 2004 at age 66, who had always paid in the maximum, would receive \$21,924 per year. A married couple with a non-working spouse ("Family") would receive \$32,880 (see Table 2). Those who paid less than the maximum would receive less.

It's interesting to note that the average Social Security wage earner earned \$34,731 in 2003; he and his employer would have paid 2 x 6.20% or \$4,307 in 2003 to Social Security. Table 2 also demonstrates that dividing the maximum annual benefit into the inflation-adjusted total contribution from

employee and employer of \$314,496, an individual retiring today can expect to get all of his/her money back in 14.3 years, a married couple in 9.6 years. But the life expectancy of a male age 66 is 16 years, a female is 20 years and these benefits are promised for life.

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, which is the heading for your Social Security "contribution" on your W-2 Form, stands for 'Federal *Insurance* Contributions Act.'

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 an 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 (i.e.: 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.

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Table: 1 Social Security (SS) Taxes

Year	Maximum Covered Earnings	SS Tax as % of Covered Earnings	Tax (\$)	Inflation-Adjusted Dollars for 2004
1937	\$3,000	1.00%	\$30	\$384
1938	\$3,000	1.00%	\$30	\$379
1939	\$3,000	1.00%	\$30	\$386
1940	\$3,000	1.00%	\$30	\$391
1941	\$3,000	1.00%	\$30	\$388
1942	\$3,000	1.00%	\$30	\$369
1943	\$3,000	1.00%	\$30	\$334
1944	\$3,000	1.00%	\$30	\$314
1945	\$3,000	1.00%	\$30	\$309
1946	\$3,000	1.00%	\$30	\$302
1947	\$3,000	1.00%	\$30	\$278
1948	\$3,000	1.00%	\$30	\$243
1949	\$3,000	1.00%	\$30	\$226
1950	\$3,000	1.50%	\$45	\$342
1951	\$3,600	1.50%	\$54	\$406
1952	\$3,600	1.50%	\$54	\$376
1953	\$3,600	1.50%	\$54	\$369
1954	\$3,600	2.00%	\$72	\$488
1955	\$4,200	2.00%	\$84	\$566
1956	\$4,200	2.00%	\$84	\$568
1957	\$4,200	2.25%	\$95	\$630
1958	\$4,200	2.25%	\$95	\$608
1959	\$4,800	2.50%	\$120	\$752
1960	\$4,800	3.00%	\$144	\$895
1961	\$4,800	3.00%	\$144	\$881
1962	\$4,800	3.13%	\$150	\$909
1963	\$4,800	3.63%	\$174	\$1,043
1964	\$4,800	3.63%	\$174	\$1,030
1965	\$4,800	3.63%	\$174	\$1,017
1966	\$6,600	3.85%	\$254	\$1,459
1967	\$6,600	3.90%	\$257	\$1,437
1968	\$7,800	3.80%	\$296	\$1,609
1969	\$7,800	4.20%	\$328	\$1,707
1970	\$7,800	4.20%	\$328	\$1,619
1971	\$7,800	4.60%	\$359	\$1,674
1972	\$9,000	4.60%	\$414	\$1,852
1973	\$10,800	4.85%	\$524	\$2,268
1974	\$13,200	4.95%	\$653	\$2,664
1975	\$14,100	4.95%	\$698	\$2,565
1976	\$15,300	4.95%	\$757	\$2,550
1977	\$16,500	4.95%	\$817	\$2,600
1978	\$17,700	5.05%	\$894	\$2,673
1979	\$22,900	5.08%	\$1,163	\$3,231
1980	\$25,900	5.08%	\$1,316	\$3,284
1981	\$29,700	5.35%	\$1,589	\$3,493
1982	\$32,400	5.40%	\$1,750	\$3,512
1983	\$35,700	5.40%	\$1,928	\$3,618
1984	\$37,800	5.70%	\$2,155	\$3,919
1985	\$39,600	5.70%	\$2,257	\$3,938
1986	\$42,000	5.70%	\$2,394	\$4,032
1987	\$43,800	5.70%	\$2,497	\$4,126
1988	\$45,000	6.06%	\$2,727	\$4,341
1989	\$48,000	6.06%	\$2,909	\$4,447
1990	\$51,300	6.20%	\$3,181	\$4,640
1991	\$53,400	6.20%	\$3,311	\$4,595
1992	\$55,500	6.20%	\$3,441	\$4,577
1993	\$57,600	6.20%	\$3,571	\$4,568
1994	\$60,600	6.20%	\$3,757	\$4,666
1995	\$61,200	6.20%	\$3,794	\$4,579
1996	\$62,700	6.20%	\$3,887	\$4,577
1997	\$65,400	6.20%	\$4,055	\$4,649
1998	\$68,400	6.20%	\$4,241	\$4,781
1999	\$72,600	6.20%	\$4,501	\$4,995
2000	\$76,200	6.20%	\$4,724	\$5,134
2001	\$80,400	6.20%	\$4,985	\$5,274
2002	\$84,900	6.20%	\$5,264	\$5,466
2003	\$87,000	6.20%	\$5,394	\$5,497
2004	\$87,900	6.20%	\$5,450	\$5,450
		Total	\$94,925	\$157,248
2005	\$90,000	6.20%	\$5,580	

Source: www.ssa.gov

In 1935, 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).¹ This is how an insurance plan works: a minority receives more than they paid in because a majority receives less than they paid in.

Back in 1939, 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. Referring back to Table 1, we see the rate of 1% on the first \$3,000 in annual pay is equal to \$30 per year or \$384 per year in current dollars, matched by the employer. Sounds like a valid insurance plan, doesn't it? And it was, as long as the assumption held. But as life expectancies improved, the number of workers per retiree fell to 5:1 in the 1960s and 3:1 in the 1990s. That's why the contribution per worker increased by 4 times from 1937 to 1968 and has tripled since. In 30 years, the expected ratio of 2 workers-to-retiree will require a 50% increase from today's workers' contributions 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.

Table: 2 Benefit Analysis

Maximum SSA Benefits 2004 \$			
	Monthly	Annual	Years to use Contributions
Individual	\$1,827	\$21,924	14.3
Family	\$2,740	\$32,880	9.6
Maximum SS Taxes Contributed (assume contributing maximum since 1937):			
	Tax \$	2004 \$	
Individual	\$94,925	\$157,248	
Employer	\$94,925	\$157,248	
Total	\$189,850	\$314,496	

Assumes normal retirement age 66, individual and family receives full benefit and individual paid in maximum amount

Source: information derived from www.ssa.gov

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Social Security by the Numbers (continued)

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. In the 1980s, 2-5% of hands were raised. In the past 8 years, I've seen exactly nine hands 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. While participation in the private plan can be voluntary, once chosen, the contribution would be mandatory (people must fund it) and carved out of the Social Security contribution. These accounts would look much like IRA's.

(2) An insurance plan - for which the benefits are need-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 \$70,000 in income or \$1.4 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 28-35% rate and can expect your estate to pay tax on the remainder at 30-48%. So the dollar which is promised to you will become \$0.65 - \$0.72 after income taxes, and \$0.33 - \$0.50 after estate taxes. Under my plan, the promise is more likely to be kept should you actually need Social Security. 

— Ron Muhlenkamp

¹ I've been told by a man who was in his late 20s 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.

² 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.

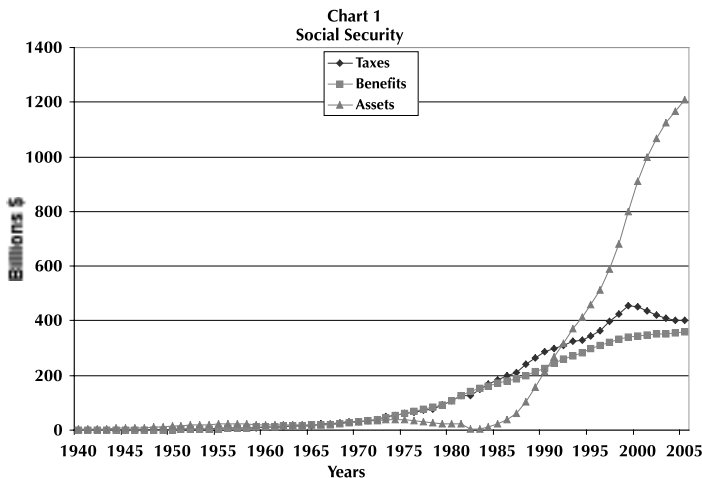
The information in this essay represents the opinions of Ron Muhlenkamp, is subject to change, and any forecasts made cannot be guaranteed.

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Social Security Revisited

This essay was originally published in December 2000, updated in January 2005.

In the prior essay (*Social Security by the Numbers*,) we looked at Social Security from the point of view of the individual, specifically, "How much did I pay into it?" and "What can I expect to get out of it?" Our essay resulted in a number of comments and questions. In order to address these questions, we need to review Social Security in the aggregate, i.e. what does the whole program look like?



In Chart 1 we've plotted the following for each year since 1940:

1. The number of dollars workers paid into the program in taxes.
2. The number of dollars retirees received from the program in benefits.
3. The resulting assets in the "trust fund."

As you can see, the program currently looks pretty good. There is close to \$1.2 trillion in the trust fund, roughly three years worth of benefits. This looks impressive until you realize that most people receive benefits for 20 years, not three.

Most of you know that we don't like to make projections, but in the case of Social Security, it's pretty easy.

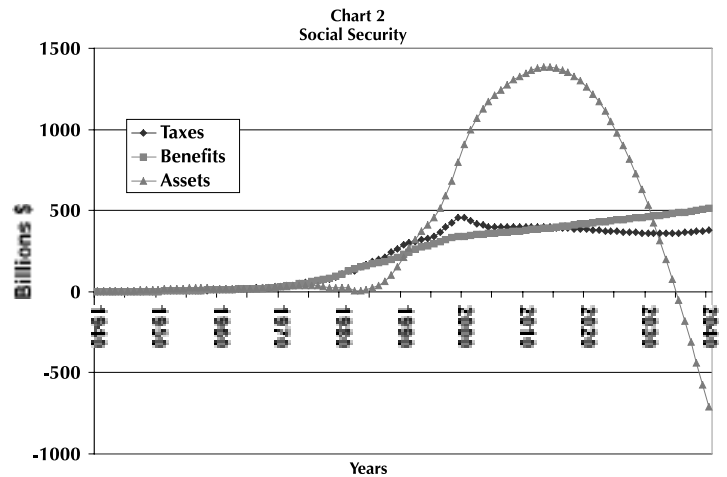
The benefits to be paid out each year will equal the number of retirees multiplied by the benefits promised to them.

The taxes paid in each year will equal the number of eligible workers, multiplied by the employment rate, multiplied by the withholding rate on their salaries up to a stated level.

Since nearly all the future retirees are already in the workforce and nearly all the eligible workers for the next 20 years have

already been born, it's fairly easy to project the taxes, benefits and assets for the next 20-40 years. In fact, our projections look just like the projections of the Social Security Administration (SSA). The projections are included in Chart 2.

Chart 2 shows why today's retirees over the age of 65 don't have a problem; there will be sizable assets in the program for the next 30 years.



But Chart 2 also shows why the children of today's retirees, 30-40 year-olds, do have a problem: the program runs out of money in 2035.

Why has the program worked so far? When the Social Security program was initiated in 1937, the average life expectancy in the U.S. was less than 65 years. Eligibility for benefits was set at age 65 in the expectation that fewer than half of the workers would collect Social Security (because they wouldn't live long enough). Furthermore, when the program started, there were a lot of workers paying into the program and few receiving benefits.

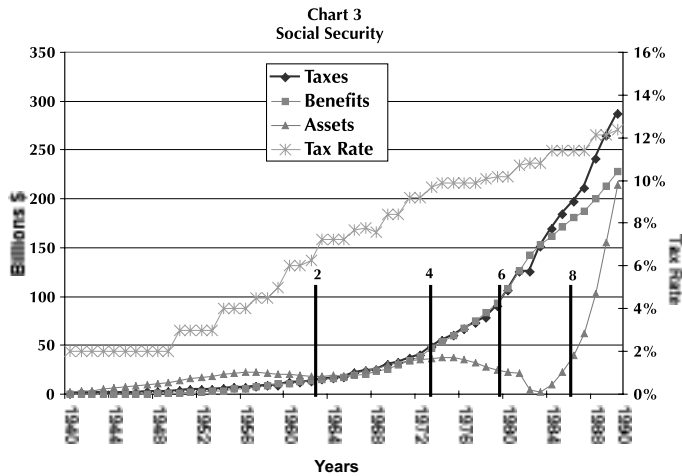
In 1945, the ratio of workers-to-retirees was over 40 to 1; in 1950, over 16 to 1; and in 1960, the ratio was 5 to 1. Today, the worker-to-retiree ratio is a little over 3 to 1.

As the worker-to-retiree ratio fell, the SSA found it necessary to raise the tax rate from 2% in 1937-1949 (1% employee + 1% employer) to 6% by 1960 to 12.4% in 1990. The 12.4% rate remains today.

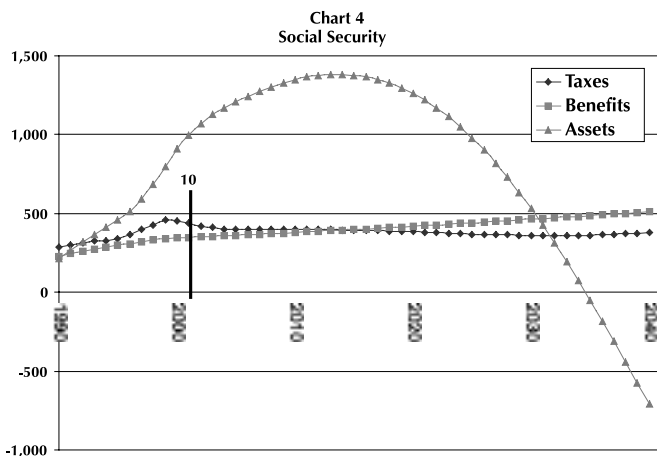
Furthermore, the SSA found it necessary to raise the level of wages on which the tax is paid from \$3,000 in 1937 (\$38,400 in 2004 inflation-adjusted dollars) to \$87,900 in 2004.

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Social Security Revisited (continued)



We've plotted the applicable tax rate on Chart 3. We've also marked the years when the combination of tax rate and rate base first pushed the top payer over the levels of 2, 4, 6, 8 and 10 thousand dollars (all numbers inflation-adjusted). Note that Chart 4 is a continuation of Chart 3, simply with a change in scale.



Also, starting in 1984, the SSA started cutting the value of retiree benefits. In 1984 they started taxing benefits; they started taxing 50% of the benefit and now tax 85% of the benefit. More recently, they've been raising the retirement age.

I was born in 1944; the age for me to qualify for full Social Security benefits is 66 years, not 65. If you were born in 1960, the age at which you will qualify for full benefits is 67 years, not 65.

Social Security benefits are calculated as a percentage of your qualifying pay prior to retirement. Currently, benefits are calculated at 90% of the first \$627 of his/her average indexed

monthly earnings; plus 32% of his/her average indexed monthly earnings over \$627 and through \$3,799; plus 15% of his/her average indexed monthly earnings over \$3,799. Since the average wage earner today earns roughly \$34,731 per year (\$2,894 monthly), the average retiree is promised benefits a little over 45% of their pay. See Table 1 for details.

Table: 1 Social Security Benefits

	Monthly	Annual
Average Wage per SSA 2003	\$2,894	\$34,731
SSA Benefits Calculation:		
90% of \$627, plus	\$564	\$6,772
32% of earnings > \$627 through \$3,779 plus	\$726	\$8,706
15% of earnings > \$3,779	\$0	\$0
Total	\$1,290	\$15,478
\$ of current wage	45%	45%

2005 SSA Benefit Calculations:

90% of first \$627 average monthly earnings, plus
32% of average indexed monthly earnings over \$627 and through \$3,779 plus
15% of average indexed monthly earnings over \$3,779

Source: information derived from www.ssa.gov

Three people each paying 12% in taxes can support one person taking 36% out in benefits. (Note that in 1960, five people each paying 6% in taxes could support one person taking 30% out in benefits.) The problem is that the ratio of workers-to-retiree will decline to just 2:1 by 2030.

At that point, the two workers would each have to pay 18% of their pay (nearly a 50% increase) into Social Security in order for one retiree to receive 36%. Some people believe this is a viable solution. I don't. In the 1970s, I saw what happens when people are pushed into ever-higher tax brackets. At some point, they quit work. Even if the employees want to work – if the employer quits, the employees are out of work.

A second solution is to cut benefits. (In fact, I've suggested cutting the benefits of millionaires, but there aren't enough millionaires to solve the problem.) Many retirees believe that their benefits can't be cut. They believe they're entitled to the promised benefits. But the Supreme Court (*Fleming vs. Nestor*, 1960) has ruled that we're not entitled to the promised benefits. Some retirees were shocked when Medicare tripled the amount (from \$10 to \$30) of the co-pay for prescribed drugs. Folks, the rules on Social Security are set by the same people who make the rules on Medicare. If they believe it is necessary, they will cut your benefits.

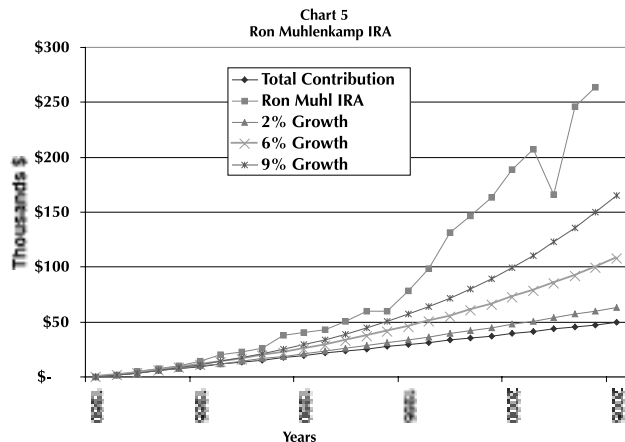
But there is a third way to make Social Security viable for the next generation.

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Social Security Revisited (continued)

If a part of the taxes used to build the trust fund for the next 30 years could be invested to earn a reasonable rate of return, we could alleviate the problem. Some have suggested allowing people to invest part of their Social Security taxes in a Personal Social Security account. To me, a Personal Social Security account sounds a lot like an IRA (call it a PSA). So I took a look at my IRA to see how it has done.

Chart 5 is a plot of my personal IRA from 1980 through 2004. The bottom line is the total dollars I've paid in, 24-years multiplied by \$2,000 per year is equal to \$48,000. The middle lines are calculated: they show the assets I'd have if I'd earned 2%, 6%, or 9% per year. The top line is what my account has actually done. Chart 6 simply extends Chart 5 out another 20 years to show a typical working lifespan of 44 years.

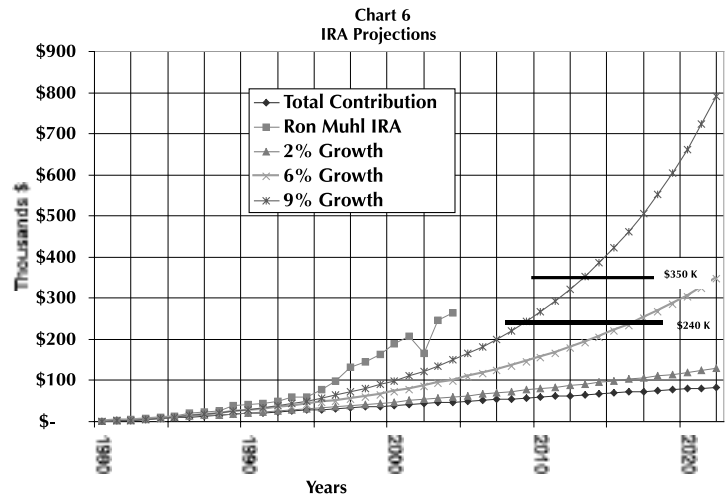


Note: Within the above illustration, performance is net of all fees. See following page for the Muhlenkamp Fund's quarter-ending standardized returns.

The Social Security Administration recently sent me a statement which said my promised benefit upon retirement is \$21,924 per year. The IRS says my life expectancy at age 66 is 16 years. So the SSA expects to pay me \$350,784 over my retirement years. We've marked that on Chart 6.

Alternatively, an annuity which promised me \$21,924 for 16 years, would cost \$240,000 at the start, if we assume an interest rate of 5%. We've marked that on Chart 6.

You'll note that at contributions of \$2,000 per year, the return has to be 6% or greater to reach \$350,000 in 44 years but that it reaches \$240,000 in 37 years. I've exceeded \$240,000 in 24 years. The amazing thing is that the \$2,000 per year that I put into my IRA is less than 30% of what I've paid into Social Security in the same period of time. It's also less than 25% of what I've paid into Social Security to date. So just by earning a reasonable return on my investment (it's been invested first in the Windsor Fund and later in the Muhlenkamp Fund), I will be able to fund an amount equal to my promised Social Security benefits with only 30% of the Social Security taxes.



This makes 70% of my Social Security taxes available to someone else.

From the above data I reach several conclusions:

1. The 65+ year olds don't have a problem, their children do.
2. Using Personal Security Accounts for a part of the taxes can help alleviate the problem.
3. We have a fairly short period of time (the next 10-15 years while the assets in the trust fund are building) to implement the PSA. After 15 years the window closes.
4. Politically, it will probably not happen soon enough unless those over 65 push for it.

Folks, our politicians know the numbers. They expect to hear complaints from young workers who know the numbers, but they fear a backlash from retirees who don't know the numbers.

And they know that retirees vote in greater percentages than do younger people. Plus, the problem won't come to fruition for 30 years, which is 5 to 15 elections away.

So, in order to solve the problems, it is necessary for retirees to insist to their congress people that they reform Social Security for the benefit of their children and grandchildren.

We welcome your comments and questions. 📧

— Ron Muhlenkamp

Past performance does not guarantee future results. The information in this article represents the opinions of Ron Muhlenkamp, is subject to change, and any forecasts made cannot be guaranteed. This article is not a solicitation of any other funds mentioned.

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Average Annual Returns as of 12/31/04***

	Year to Date	Past Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception 11/1/1988
Muhlenkamp Fund						
Return Before Taxes	24.51%	24.51%	13.87%	15.13%	18.28%	15.04%
Return After Taxes on Distributions*	24.45%	24.45%	13.85%	14.89%	18.00%	14.66%
Return After Taxes on Distributions and Sale of Fund Shares*	15.93%	15.93%	11.99%	13.20%	16.56%	13.71%
S&P 500**	10.88%	10.88%	3.59%	-2.30%	12.07%	12.01%

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be found on our website at www.muhlenkamp.com.

*After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on your situation and may differ from those shown. Furthermore, the after-tax returns shown are not relevant to those who hold their shares through tax-deferred arrangements such as 401(k) plans or IRAs.

**The S&P 500 is a widely recognized, unmanaged index of common stock prices. The figures for the S&P 500 reflect all dividends reinvested but do not reflect any deductions for fees, expenses or taxes.

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

Information contained in this newsletter does not constitute an offer to sell, or a solicitation of an offer to buy shares of the Muhlenkamp Fund, nor shall any shares be offered or sold to any person in any jurisdiction in which such offer, solicitation, purchase, or sale would be unlawful under the securities laws of such jurisdiction.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The Prospectus contains this and other important information about the investment company, and it may be obtained by calling (800) 860-3863, or visiting www.muhlenkamp.com. Read it carefully before investing.

The Muhlenkamp Fund is distributed by Quasar Distributors, LLC.

Important Information for Shareholders

2004 Distributions

An income dividend of \$0.10704 was paid on December 29, 2004 to shareholders of record on December 28, 2004. IRS Form 1099-DIV will be issued during January 2005 to all taxable accounts that received the dividend. There was no capital gains distribution for the Muhlenkamp Fund for the year ended December 31, 2004.

EGTRRA Update

In September of 2004 The Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 was amended. This amendment stipulates mandatory cashouts of inactive participant accounts in qualified retirement plans of \$5000 or less. These accounts will automatically be rolled to either an IRA or individual retirement annuity invested in money market funds, interest bearing accounts or CDs. This amendment goes into effect as of March 28, 2005.

If you have an account in a qualified retirement plan in which you are no longer an active participant, you may want to contact your plan sponsor to roll over the account to an IRA of your choice.

Important Reminder

Please note that we cannot process new account applications, additional investments, account transfers or account redemptions at our Wexford, Pennsylvania office.

Please send all account correspondence to the following address:

Muhlenkamp Fund
c/o U.S. Bancorp Fund Services, LLC
PO Box 701
Milwaukee WI 53201-0701

Or by overnight mail to:
Muhlenkamp Fund
c/o U.S. Bankcorp Fund Services, LLC
615 East Michigan Street
Milwaukee, WI 53202

If your account is set up for telephone transactions, you may also call (800) 860-3863 to purchase or redeem shares in your account.