

MuhlenkampMemorandum

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On June 30, 2005, the Net Asset Value of the Muhlenkamp Fund was \$81.70, up \$2.73 year-to-date.
[Click here](#) to see the current Net Asset Value of the Muhlenkamp Fund.

Quarterly Letter

The economy continues to expand at a rate of 3½% or better.

Nationwide, unemployment is at 5.1%.

Inflation remains under control at about 2%. It has been at roughly 2% for eight years.


Short-term interest rates are in the 3% range, which is a fair level when inflation is at 2%.

Long-term interest rates are in the 4½ to 5% range, which is a fair level when inflation is at 2%.

Long-term mortgage rates are in the 5½% range, which is a fair level when inflation is at 2%.

We believe stocks are priced to return 8-9%, which is fair given all of the above.

Folks — these are the economic numbers we have been trying to attain for 25 years!

I don't understand why so many reasonably intelligent people refuse to accept and enjoy them! 

— Ron Muhlenkamp

The information in this article represents the opinions of the Fund Manager, is subject to change, and any forecasts cannot be guaranteed.

Mark Your Calendars

Washington D.C. Money Show

Wardman Park Marriott
August 11-13, 2005

Tony Muhlenkamp will participate in the Investment Masters Symposium and deliver a workshop: *Back to Basics – How to Make Money in the Current Investment Climate*. Ken Dupre, one of our equity analysts, will be conducting a workshop on *Optimizing Investment Performance – Helping Investors Become Better Investors*.

To register for free admission, simply call (800) 970-4355 or visit www.moneyshow.com and reference priority code #003717. If you'd like to talk with us while at the Show, please stop by our exhibit booth (#706) or call (877) 935-5520 to arrange a visit.

San Francisco Money Show

San Francisco Marriott
October 14-16, 2005

Ron Muhlenkamp will participate in the Investment Masters Symposium and deliver a workshop: *Back to Basics – How to Make Money in the Current Investment Climate*. Ken Dupre, one of our equity analysts, will be conducting a workshop on *Optimizing Investment Performance – Helping Investors Become Better Investors*.

To register for free admission, simply call (800) 970-4355 or visit www.moneyshow.com and reference priority code #003717. If you'd like to talk with us while at the Show, please stop by our exhibit booth (#408) or call (877) 935-5520 to arrange a visit.

Announcements

The Muhlenkamp & Company investment seminar, *Back to Basics: How to Make Money in the Current Investment Climate*, took place on Thursday, June 2, 2005 at the Senator John Heinz Regional History Center. Please visit www.muhlenkamp.com and click on the designated link to view an archived version of the live webcast.



Muhlenkamp & Company, Inc.
Intelligent Investment Management

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But, I Need Help!

In *Muhlenkamp Memorandum* #74, Ken Dupre provided a blueprint on how to become a better investor. There are many investors, however, who want to have their money invested and working for them, but do not have the time, understanding or inclination to handle it themselves. There are legitimate reasons why they feel this way. For some, their careers and/or lifestyles are too time-consuming. Others, who are new to investing, can be intimidated and confused by the terminology and process. In addition, there are many people who have been burned in the past by poor performance and now lack confidence in their own ability.

The solution for many people is to hire a professional money manager, someone who does this for a living. This would be much the same as one hires a doctor, lawyer or plumber. After all, none of us attempt "do-it-yourself" surgery. When hiring a professional, one still has to do some homework to be sure he/she makes the right choice. So what is the first step?

Determine what your goals are.

Are you investing your money to pay for:

- College?
- Retirement (IRAs)?
- Supplement tax-deferred retirement savings?
- Leave as an inheritance?

For the most part, these types of goals are usually long term and can withstand short-term fluctuations in the market.

Who is a professional money manager?

Professional money managers are portfolio managers for individuals and other various entities such as trusts and mutual funds.

What should you be looking for in a professional money manager?

The number one consideration is comfort. The person you choose should

have a philosophy that you understand and agree with. Some feel that in order for this philosophy to be successful it should be applied to the investment process on a consistent basis. Tenure of the manager then becomes a crucial factor. After all, if portfolio managers change every few years, the overall philosophy may change resulting in less than acceptable performance. In addition, you may wish to avoid portfolios with a high turnover of investments. This may be detrimental to you at tax time and indicate that the management philosophy may not be applied consistently.

"Convenience is usually expensive. Ignorance is deadly."

— Ron Muhlenkamp

It also requires an understanding on your part that no one philosophy performs well in all markets. It is reasonable to expect some sort of loss every 3-4 years, but not for two years in a row. In other words, you must resist the temptation to change managers when things are not going well over the short term! After all, you are hiring this person to reduce the stress of investing for you.

The next question is:

Where do I find the right person to take care of my money?

You can start by merely selecting one or two mutual funds. However, anyone who has looked at the financial pages of their local paper knows that there are literally thousands of choices. So, how to pick the best one for you?

The first thing to understand is the difference between a load and no-load mutual fund. A mutual fund with a load

means that there is an additional sales charge to you either when you buy or sell the fund. A no-load mutual fund does not have these sales charges. Both types of funds, however, typically have additional fees. Do yourself a favor: Read the prospectus!

The next thing you may want to look at is mutual fund rankings, designations and lists released by various entities and publications, both public and private. Review the criteria each uses and determine if it makes sense to you. For example, *Forbes* annually publishes their "Honor Roll" of ten no-load funds, which looks at a fund's relative performance in up and down markets; manager tenure; diversification; accessibility; and long-term, after-tax performance.

In addition, there are many newsletters you can subscribe to that also do an excellent job of recommending quality mutual funds. One such publication is the *Market Timer* by Bob Brinker.

Another helpful resource is the Morningstar website where you can check how individual funds meet the various criteria you have selected. In addition, plan on visiting the mutual fund's website. See what the portfolio manager(s) have to say about their philosophy and compare that to some of their comments in the past, if applicable.


There are still others who are willing to spend the extra money and hire a financial planner to do all of the investigative work for them. But again, as when you hire any professional, there are still questions which must be asked:

- Is the individual a "Certified Financial Planner" (CFP)?
- Is the adviser "fee-only," meaning that they are paid only by the client and receive no commissions? (Note: If "fee-based" or "fee-offset," you may find yourself paying commissions.)

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- Is the individual associated with a professional association defined by a set of high-level standards? An example of this would be the National Association of Personal Financial Advisors (NAPFA).

The same type of homework would be necessary if you were to consider hiring a private money manager to build you a custom portfolio. Be aware, however, that the fees for this type of highly individualized service may vary widely.

In conclusion, there are many resources available for those who wish to take a more detached role in managing their finances. Nevertheless, as Ken Dupre points out in his article, to be successful, investors are not absolved from doing some basic homework! Also, be aware that the more intermediary levels of assistance you have, the more expensive it becomes, thereby reducing your overall return. 

— Susen Friday

This article was written by Susen Friday, a Shareholder Services Representative for Muhlenkamp & Company.

Susen Friday's opinions are subject to change, cannot be guaranteed and should not be considered investment advice.

While the Muhlenkamp Fund is no-load, management fees and other expenses still apply.

Questions and Responses

*At our summer seminar on June 2, 2005, Ron Muhlenkamp presented **Back to Basics: How to Make Money in the Current Investment Climate** to an audience of clients, shareholders and prospective investors (to view an archived version of the live webcast, visit www.muhlenkamp.com and click on the designated link). Afterwards, Ron Muhlenkamp entertained questions from the audience. The following is a sampling of the "Q&R":*

How will a burst in the real estate bubble affect Fund holdings?

Folks, we are not invested in real estate; we are invested in home-building stocks. This is an important distinction because we don't base our assessment of these investments on the future direction of home prices, but rather on the company's fundamentals.

The reason we own companies who build houses is because it is a consolidating industry. These companies do about an 18%–20% return on equity (ROE); most of them have a six- to twelve-month backlog; and they are selling at eight times earnings. Eight times earnings are not "bubble prices." If they were selling at twenty-five or thirty times earnings, then I would worry about it. At eight times earnings, I'm not [worried].

That said, I do suspect that we have a real estate bubble in some neighborhoods - and in some cities. We do not have one nationwide. Our son Jeff is about to move to the D.C. area and I strongly suspect, when we run through the numbers, we will find it makes a whole lot more sense for him to rent rather than to buy. Remember, in 1970, I could make the argument that on an *after-tax* basis, owning a home cost no more than renting an apartment. Analyzing the numbers will tell you whether you should be renting or buying; it will tell you if the house is overpriced or not.

I'm sure that in some neighborhoods in some parts of the country people have started to play the game of trying to anticipate price changes. We think that the driver for much of the price appreciation of the last three years has been the decline of interest rates. That is now over. We expect house prices to level off. That is an expectation; it is not a prediction.

If things are back to "normal" like in 1965, where does that leave us now? Didn't you say that 1965-1980 was a bad time to own stocks, when things were flat and you just got the dividend?

What happened after 1965 was that inflation ran up, which is why we now monitor inflation. In 1965 we could inflate

because we were lending money to the rest of the world and everybody trusted the dollar. Today, we just went through a recession for fear of inflation that hadn't cropped up yet. Greenspan all but said in 1999 that he'd take a recession rather than inflate. Our whole mental attitude is different than it was in 1965. History doesn't necessarily repeat itself, or at least not one-for-one.

The reason that everybody's looking at inflation is that inflation is what killed interest rates and what killed stocks after 1965. If you convince me that inflation is going to 5% then, yes, we are going to repeat the 1970s. I see no sign of that.

There is fear of inflation in the stock market but not in the bond market. Inflation doesn't work that way. Inflation changes the value of money, which affects all stocks and all bonds. That's why we watch inflation so closely. We don't see any signs of it picking up beyond 2½%. Now, it's roughly 2%. If it does pick up, we will change. But that is the difference [between 1965 and today].

How can things be back to "normal" when gas prices are on the rise? Isn't this a sign of inflation?

Gas prices work just like a tax. The more you and I spend on gas, the less we are

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going to spend on something else. But gas prices alone do not give us inflation. Folks, the way we measure inflation is to add up prices. But that's not what causes it. What causes inflation is the federal government printing money.

We think that the "normal" we've been talking about -- the "normal" we haven't seen since 1965 -- is inflation on the order of 2%, which means that short-term rates should be on the order of 3%, and we are now there. Long-term rates should be on the order of 5%, and that has been fairly stable for a couple of years. Stock prices should be on the order of a P/E (price-to-earnings ratio) of 18 or so, and we are now there. So we think that we are back to "normal," but it is a normal that we haven't seen since 1965.

The other part of the equation is that every industry has ample capacity. When I speak to the media the first question is always: "Which way is the market going?" and I say, "Which market are we talking about?" We've had a split market since, at least, 1998. The second question the media asks is: "What sectors do you like?" There have been periods of time in the last thirty years when, if you picked the right industry or sector, that's about as much as you needed to know. Today, nearly every industry has ample capacity. That means that if Wal-Mart does well, it does well at the expense of JC Penney and Kmart. You can't just buy discount retailers. If Toyota is going to do well, it will do well at the expense of Ford and Chrysler. So you can't just buy an industry. You've got to buy the stock of companies who are beating their competitors within their industry. In the 1960s we thought this was normal. We think we're back to it. If I'm right, then we're back to a normal that we haven't seen since 1965 and we old guys have an advantage over the young bucks, which is why I delight in telling them that.

What are your thoughts on the federal budget deficit?

The federal budget deficit right now, as a percentage of GDP, is about the same as it

was in the 1980s. We grew our way out of that in decent shape.

The federal budget deficit is not because we are taxed too little; it is because our government spends too much. Putting Congress in charge of the federal budget is like putting teenagers in charge of the family budget. They know what they want to spend but they have no concept of where the money comes from. Whatever money we send to D.C., they will spend. And they will spend what we don't send, as long as we let them.

Incidentally, in 1991 we had big budget deficits. Connie and I were at a reunion at MIT in June, 1991. A classmate of mine is the chief economist at Data Resources, which owns Standard & Poor's. Long-term Treasury rates in June of 1991 were at 9%, and we had budget deficits that were huge. My former classmate said, "Ron, interest rates are going up because of the deficit." I said, "Based on what I see happening with people..." (People were paying down their mortgages instead of trading up on the equity.) I said "...it looks to me as if rates are going down." By the end of 1993, long-term Treasuries went from 9% to 6% -- which is a huge move. And the budget deficit from the 1980s turned out not to be a problem.

The budget deficit today, if we allow our economy to grow -- and right now it looks as if we are -- will not be a problem. Is it something to monitor? Absolutely. Will it kill us? Only if we let it. Folks, right now this economy is in good shape. Will we do something to screw it up? Sooner or later, I'm sure we will. Look at history. So we monitor these things but, in the meantime, it looks like we are in good shape.

What about the dollar versus the euro? How is that playing out and does it alter your thinking?

On purchasing power, it seems to be roughly fair. Several things drive currencies. In the 1980s the difference in inflation levels -- the differences in the

rate at which money was losing its value in various countries -- was the overriding driver for setting the values of currencies. In the 1990s, most of the inflation numbers came down to something on the order of two percent. If inflation was at similar levels, then the difference in the value of currencies was in how fast the country was growing. And the US was growing faster than Europe so our dollar appreciated. The third thing to consider is currency trade and right now with the trade deficit, which is also a dollar surplus, we expect things to remain volatile.

Folks, I'm not interested in investing in France where they had a law (which was recently repealed) where you weren't allowed to work over 35 hours a week. I asked you a little bit ago if your kids thought that they had a shot at getting rich. If they live in France, they're not allowed to get rich. In Germany, they've got so many work rules... We were just in Germany visiting our son Jeff who's in the army, and we took a little swing through Berlin and through Poland, down to Dresden and down to the Czech Republic to Prague. I've been told that Hungary and Poland and the Czech Republic have passed East Germany, economically. When we were in East Germany back in 1992, there was a huge difference between East and West Germany but there was also a huge difference between East Germany and the Czech Republic. What I saw happening in Dresden, East Germany, was that things were happening at a governmental pace. In Prague, things are happening at a free-market pace. I believe that the Czech have probably passed the East Germans economically.

My interest in Europe would be in Eastern European countries where the people have been turned loose. My interest in Asia would be in places like China. I have no real interest in investing in countries like France or Germany that are so interested in protecting the status quo that they are killing themselves. That is a

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long answer to a short question and the real answer is that, until I have an edge, I'm not going to put your money there because I'll be competing with someone who does have an edge.

What are your thoughts on privatizing Social Security?

Folks, I don't care about politics, but I do care a lot about economics -- and the politicians set the rules for economics.

We are in favor of privatized accounts. We think that Social Security should be split between the insurance program and the pension or investment program. For the investment program, private accounts make a lot of sense. The difficulty is that we've just come through a period when a whole lot of people tried investing their own money and they lost it, or they lost a lot of it. (Refer to *Muhlenkamp Memorandum #73*, published in January 2005, for more information.)

It seems to me that there is a difference between investing in the stock market in 1999 or 2000 when you've had a pretty good decade, and you've got cash flow, and you've got a whole lot of people doing it ...versus having a program where you set aside a certain amount of money every year and over forty years you learn how to invest it. A lot of people fear that the public isn't capable of investing their own money. We think they are quite capable, but it takes them a little while to learn how to do it -- and we'd like to see them learn how to do it gradually over a period of time, rather than episodically.

Peter Lynch says that every kid coming out of high school probably knows what a cosine is but not one of them knows the difference between a stock and a bond. We do nothing to educate our youngsters on basic concepts of finance. What we call *The Basics*, have you heard these basics from anyone else? Basic things like, "What is the value of your money, based on inflation?" "What's the difference between a T-Bill, or a bond, or a stock?" These concepts, we think, are pretty basic.

What drove me to derive *The Basics* was in the early 1970s, when I was asking analysts what a company was worth and they couldn't tell me. They *could* tell me what the range of historical P/Es were. They'd say, "Well, historically, it's had a 17 P/E and it's now 14, and it's cheap." And I'd wonder: "Well, it was 17, and it's now 14, but is on its way to 7?" Wall Street analysts could not tell me what a company was worth. That seemed sort of basic to me. If you understand *The Basics*, then a whole lot of things fall into place. If you don't, then you are going to get yourself into a lot of trouble.

What are your thoughts on hedge funds?

Hedge funds are the current hot topic. Folks, if Warren Buffet is managing your hedge fund then you'll do fine. Most hedge funds are not being managed by Warren Buffet; they are being managed by young bucks who don't know what they are doing. And a lot of people are going to loose an awful lot of money.

Please comment on "small-cap growth" stocks.

We think that size and growth-versus-value is nonsense. Those are marketing ideas and they have nothing to do with investing money. Five years ago, the only values we saw were in small- and mid-sized companies, so we owned them. Today, we are seeing values in a fairly consistent mix across the board -- so we own some small stuff and we own some big stuff. We don't care about size. We care about profitability and we care about the price we pay.

The average company out there has about a 14% ROE. Our average company has an 18% ROE. If the average company is a Chevy, we are buying Buicks. If you took a look at the top fifty in the S&P 500, they have a 20% ROE. The trouble is that they sell at twenty times earnings. The average company sells at eighteen times earnings. Our companies sell at fourteen times earnings. So we've got Buicks below Chevy prices. And that's exactly what we

want! If I can buy Buicks at Chevy prices, I will do it year-in and year-out unless and until the climate changes.

I don't know how to predict climate changes, so we monitor them. Folks, I don't know how to predict the future, but then no one else does either. What I *do* know is what signposts to watch to monitor the present as it changes. And we cover that in just about every quarterly newsletter [*Muhlenkamp Memorandum*].

I got into the business in 1968, which was a year a whole lot like 1999. All kinds of nonsense stuff was going on. And as you saw, the climate changed, roughly in 1968, and what worked in the 1960s didn't work in the 1970s. I saw a whole lot of people not only give back their money, but some of them gave back their sanity because what they believed wasn't working. Climate changes tend to occur across a recession. In the 1930s we turned a recession into a depression by doing various things like raising taxes, raising interest rates and raising tariffs. In the 1960s -- because we feared depression and unemployment -- we created inflation and changed the climate [as indicated by the climate change from 1965- 1968].

Incidentally, we've had ten recessions since World War II. Ten recessions in sixty years sounds to me like a recurring phenomenon. We used to get a recession every three to five years; recently, they've been ten years apart. That's like wintertime in Pennsylvania. If you live in Pennsylvania and you are not prepared for winter, then you are not going to live in Pennsylvania for very long. If you are following our economy and you are investing and you don't allow for recessions, then you aren't going to be an investor for very long.

A couple of years ago I was in San Diego and didn't expect to find many farmers, so I asked: "How many months a year does your garden grow?" They all replied, "Twelve months a year." (How am I going to use my example, right?) I said, "Okay,

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I live in Pennsylvania where the gardens and the farms only grow six months per year. Does that mean that it's riskier to grow food in Pennsylvania than in San Diego?" Most of the food in this country is grown in areas where it grows only six months per year. Now if you live in Pennsylvania and you think you live in San Diego, then you've got a problem. If you don't know the climate you live in, then you've got a problem.

Are you attracted to companies that pay dividends?

Folks, we don't care about dividends. We care that a company earns enough money that they could pay a dividend. What they choose to do with it -- whether they choose to pay it out; or to plow it back into the company; or to buy their own stock -- is up to them.

Incidentally folks, how many of you need income? Believe me, there is not a person here who needs income. You need *spending money*. If I can give you spending money, do you care if it's income or not? Income is an IRS definition. If your retirement account increases from \$200,000 to \$1,000,000 is that considered income or is that capital gains -- or is it undefined? When you take the money out of an IRA what is it? The IRS says that it's all income. Income versus principal is an IRS definition. It's a tax definition. It has nothing to do with investing.

My mother-in-law is eighty-two. We send her a check every month. At the end of the year the accountant sits down and figures out how much is income, how much is capital gains, and how much is return of principal. The idea of income is only a tax definition. We lowered her income. I'm sure that by government statistics my mother-in-law lives in poverty. She has very little income. Hallelujah! This means that she pays very little in taxes, but her assets are growing rather nicely and she's rather fond of me. If you've got assets, you can always get spending money. We think our job is to grow your assets. How much you spend is up to you. If you insist on

income, all it's going to do is raise your tax bill.

Should NAV be a factor in a decision to buy a fund? Is it better to buy a fund with a low NAV, everything else being equal?

The NAV of the fund is irrelevant. It's simply a pricing of what's in the fund. What a high NAV tends to tell you is that the fund is tax efficient. Our Fund came out at \$10/share. If we took our gains every year and paid taxes on them, every year the Fund would reprice to \$10/share. The fact that we're at \$79/share is a pretty good clue that we are tax efficient. If you go through the paper, there are only a dozen or so funds that are above \$75/share, you'll find that they tend to be very tax-efficient funds. (Refer to *Muhlenkamp Memorandum #70*, published in April 2004, for more information.)

Right now, our Fund has a 30% unrealized gain built in to it. Some people view that as a negative, except that we've had a 30% unrealized gain for ten years now, during which we've quadrupled people's money. What you really want is someone who cares about tax efficiency. Folks, my money is in the Fund. I will never apologize to you for costing you capital gains taxes at a 15% rate. If you and I make a dollar and keep eighty-five cents of it, that's about as good as Uncle Sam will let us do. We try not to pay ordinary income tax rates and we try to defer the capital gains and, so far, we have been pretty good at that. We judge ourselves by how much we make for you after taxes and inflation.

The short answer is that the NAV has no bearing on whether it has a good price or not. It does have some information on whether it is tax efficient or not.

Does Muhlenkamp & Company set a sell-stop on a stock after you purchase it? And am I correct in assuming that most value investors do not usually employ sell-stops?

When we purchase a stock it is because we believe that we are getting it well

below the fair value of the company. We monitor price actions. The bad news always shows up in the price first.

We certainly don't write down stops because the specialists would simply take us out. We do a mental thing similar to that. If it hits a sell-stop, it simply means that after the stock runs up a certain amount, it drops. Let's say it drops 15% or 20% below either the price you paid or the recent high, you'll sell it just on a momentum basis. And that's a pretty good way of selling stocks. For us, that's a time to review and, if the fundamentals are there, we'll probably stay with it. If we're not convinced the fundamentals are there, then we'll probably sell it.

Folks, I can teach you the science of buying stocks. Selling them is an art. You and I can call up a company and get the good news for the next five years. In many cases they won't tell you the bad news until it's far too late to do anything about it. Essentially, we buy fundamentally and the rules say that we sell technically. The difficulty is that I wrote the rule and, every now and then, I break the rule. I guess that's the advantage of writing the rules. We don't give the specialists our stock number, but we monitor it in that fashion. We buy fundamentally and we sell technically.

Do we have foreign stocks in the Muhlenkamp Fund and what is the ratio of foreign-to-domestic securities?

We currently own some Telmex and some Cemex, which are Telephone of Mexico and Cement of Mexico and we own a little bit of UTSI which is a telephone company in China, which has been a disaster. In the aggregate they are probably 7%-8% of what's in the Fund. We are not averse to owning foreign stocks but we don't have an edge versus other people and, of course, you always pick up currency risk. We have found enough good values in the States that we haven't seen the need to go heavily foreign.

Folks, I'm not going to invest in something unless I've got an edge. And I

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don't have an edge on foreign stocks. In the meantime, we are finding a lot of good domestic companies and we think we have an edge on them. Part of this thing is...I'll play Bobbie Fischer in tennis, but I'll be damned if I'll play him in chess. Did your daddy ever tell you that when you sit down at the poker table, if, after a dozen hands, you haven't figured out who the patsy is, get up and leave because you're it? Folks, you know this stuff.

As I near retirement, shouldn't my investment strategy change?

When my father retired from farming we didn't change the crops we were growing. We let a young man do the farming. You farm the crops that are suited to the climate you live in.

Stocks and bonds don't know how old you are, nor do they care. We think that the job of an investor is to increase the value of your assets. We don't think that bonds are safer than stocks and we spent a fair amount of time on that in the last hour. And we spent a fair amount of time saying that "long term" is three years or more. It was Maynard Keynes who said that, "In the long run, we're all dead." Well, if the long term is only three years, then we're not all dead.

My mother-in-law is eighty-two. My grandson is here today and he's one. They both own stock in the Fund. We try to grow the things that are suited to the climate we live in. I'm no longer investing money for my mother-in-law. I'm investing it for her heirs. Do you not want your assets to outlive you? What's the point of building these assets if you then fritter them away by owning things like T-Bills or bonds, where you can't make money -- just because somebody has a theory that says that as you get older you ought to change the crops that you grow, as if the crops knew how old you are! No, you plant the crops that are suited to the climate you live in.

From 1981 to 1993, we were a third in bonds because we were seeing great value

in bonds. When the value ended we no longer owned them. To me, that's asset allocation. The idea that you should own some of everything, or that you should change what you own as you age, I've never quite understood. It's a theory that ends up costing a lot of people a lot of money.

We did a presentation to financial planners two weeks ago and our headline was "How Much Money Are You Willing to Lose for a Theory?" We covered risk adjusted [returns], style boxes, reversion to the mean -- all of which are theories which have cost a whole lot of people a lot of money. We are not willing to lose money for a theory. Theories are supposed to help you make money. If they don't do that, they are useless. Incidentally, where I went to school we were taught that gravity was a theory. As theories go, gravity is a pretty good theory. But when people talk about the "laws of economics," no, there are a lot of theories of economics and there are an awful lot of theories of investing. Some work, some don't.

Is there going to be a problem when the baby boomers all start taking money out of the stock market around 2010?

If we were all to retire tomorrow, first of all we would withdraw it over twenty years, which means 5% a year. Secondly, the idea that prices are only set by supply and demand of the public is nonsense. We saw that in 1999. What the public demands, Wall Street will sell them. What the public doesn't want, the companies themselves will buy back in their own stock. Prices will be set by the values of the companies. Will there be a short-term effect if the psychology changes in the short-term? Yes, and it will last until Wall Street can catch up to it.

What happened in 1999 and 2000 was a beautiful example of whatever the public wanted -- Wall Street sold to them. What the public didn't want, which was our kinds of stock, companies bought

in their own. As long as the companies are profitable and have good cash flow, which are the ones that we own, they have the capability of buying in their own stock. The idea that the only drivers of stock prices are short-term demands by the public is a very narrow idea. It only looks at a small piece of the puzzle.

Do you plan to retire in the next ten years?

I'm told that there are people in the family who are monitoring me for signs of Alzheimer's. I plan to retire shortly after the mind goes. Unless, of course, performance stays up, in which case they'll probably keep me on. Does it sound like I'm having fun? This is more fun than pinochle -- and I'm certainly not going to play golf!

It's been a pleasure, folks. Thank you for your attention. 

This article represents the opinions of Ron Muhlenkamp and is not intended to be a forecast of future events, a guarantee of future results, or investment advice.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

Sector allocations and fund holdings are subject to change and should not be considered a recommendation to buy or sell any security.

Return on Equity (ROE) is a measure of a corporation's profitability.

ROE represents average return on equity on the securities in the portfolio, not the actual return on equity of the portfolio.

The Price-to-Earnings (P/E) Ratio reflects the multiple of earnings at which a stock sells.

The Muhlenkamp Fund is distributed by Quasar Distributors, LLC. Quasar Distributors, LLC, Distributor. 06/05

MuhlenkampMemorandum

Fund Fee Schedule

Posted below are fees charged by our custodial bank, U.S. Bank, N.A. for the various services associated with maintaining your Muhlenkamp Fund IRA / Coverdell Education Savings Account. The current fee schedule is per account and shown at right.

Please pay particular attention to the annual maintenance fee shown above. This fee has been increased to \$15.00 (capped at \$30.00 per Social Security number). You can pay this annual fee by October 15th by submitting a check made payable to the Muhlenkamp Fund. With the check please include either the deposit slip that is included with your account statement, or a short note that contains your account number. If you decide not to prepay the annual maintenance fee, it will be

Traditional and Roth IRA annual maintenance fee	\$15.00*
Coverdell Education Savings Account annual maintenance fee	\$15.00*
Transfer to successor trustee	\$25.00
Distribution to a participant (exclusive of systematic withdrawal plans)	\$25.00
Refund of excess contribution	\$25.00
Federal wire fee	\$15.00
Re-conversion / Re-characterization	\$25.00

deducted from your account following the cut-off date and a sufficient share value will be redeemed to cover the fee. The address to mail the check to is:

Muhlenkamp Fund
U.S. Bancorp Fund Services, LLC
P.O. Box 701
Milwaukee, WI 53201-0701

If you have questions regarding these fees, or need an updated copy of the IRA / Coverdell Education Savings Account Disclosure Statement and Custodial Agreement, please feel free to contact us. You can call us toll-free at (877) 935-5520 ext. 4 from 8:30am to 5:00pm ET. [M](#)

*Capped at \$30.00 per social security number

Average Annual Returns as of 6/30/05***

	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Since Inception 11/1/1988
Muhlenkamp Fund						
Return Before Taxes	3.46%	21.76%	17.21%	13.14%	16.86%	14.80%
Return After Taxes on Distributions*	3.46%	21.74%	17.20%	12.91%	16.59%	14.43%
Return After Taxes on Distributions and Sale of Fund Shares*	2.25%	14.18%	14.94%	11.41%	15.20%	13.50%
S&P 500**	-0.81%	6.32%	8.28%	-2.37%	9.94%	11.58%

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.

Mutual fund investing involves risk. Principal loss is possible.

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.