

MuhlenkampMemorandum

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On December 31, 2006, the Net Asset Value of the Muhlenkamp Fund was \$87.15, up \$2.71 year-to-date.

Quarterly Letter

by Ron Muhlenkamp



2006 was a difficult year for us. Although our expectations on the economy were reasonably accurate (a soft landing), our expectations for the performance of some of our stocks were not. Specifically, we did not anticipate the degree and rapidity in which orders for new homes evaporated and the backlogs of homebuilders shrank. We also did not anticipate the repeat of unusually warm winter weather, causing the price of natural gas to fall dramatically. We have been encouraged by the action of the management of our companies. As their businesses slowed, they've used the resulting cash flows to buy in stock. We do think this will benefit us going forward.

When I write these Quarterly Letters, my challenge always lies in how best to describe to you what we're seeing in the economy and the marketplace. To do that, I find that I have to put current observations in context of what went before. It helps me a lot to read our prior newsletters. It particularly helps to understand a "transition" year like 2006.

Many of you know that there have been four phases to the markets in 2006:

Phase I – January through April, the markets focused on economic growth and the fear that too much growth would cause inflation. Long-term treasury rates rose from 4.6% to 5.4%. The markets were led by commodities, emerging markets, and small-cap stocks. Stocks like Alcoa and Caterpillar peaked in April-May.

Phase II – Mid-May to mid-June, everything corrected.

Phase III – June to October, the markets focused on a fear of recession. Long-term treasury rates fell back to 4.8%. The market was led by defensive stocks – such as utility, food, and healthcare. Stocks like Verizon, Kraft and Merck peaked in September-October.

Phase IV – Since July, the markets' fears of recession have been gradually dissipated. As a result, the leadership has shifted to more aggressive and more cyclically sensitive stocks, including big companies like IBM and Merrill Lynch, but also some small companies like Harley-Davidson and the homebuilders.

If we're right in expecting the economy to have a soft-landing, rather than a recession, we expect Phase IV to continue.

Note that the four phases described above are the normal rotation that the markets experience when the economy goes through a recession. But, in a soft-landing, the declines are less and the time period is shortened. The rotational pattern has not surprised us, but we had little conviction in calling the timing of it. We had more conviction in the soft-landing scenario than we did in timing the markets' rotations. So we looked pretty dumb in late Phase I and in Phases II and III.

At this point, we're once again seeing springtime – an economic expansion. We presented our best description of what we're seeing at our November 9, 2006 investment seminar, *Where to from Here?* I highly recommend that you watch it on our website (www.muhlenkamp.com), or ask us for a free DVD. If you do not have a DVD player, we can also provide a transcription.

Also to put all this in context, I encourage you to read our prior Quarterly Letters (also available on our website), particularly the following:

'Memorandum #66 – Published Q-2/03
How we look at, and value bonds and stocks.

'Memorandum #68 – Published Q-4/03
Described the normal pattern of recovery from recession.

'Memorandum #70 – Published Q-2/04
Further monitoring of economic recovery.

'Memorandum #73 – Published Q-1/05
How we benefited from uncertainties in the marketplace.

'Memorandum #76 – Published Q-4/05
We're at an interesting point in the economic/investing landscape.

'Memorandum #79 – Published Q-3/06
Assessment of where we are long-term, intermediate and short-term; i.e. climate, seasons, daily weather.

'Memorandum #80 – Published Q-4/06
Transition period coming to an end. 

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 web site at www.muhlenkamp.com.



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Intelligent Investment Management

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Questions and Responses

At our semi-annual seminar on November 9, 2006, Ron Muhlenkamp presented "Where to from Here?" to an audience of clients, shareholders and prospective investors.

Afterwards, Ron Muhlenkamp and his team of Investment Analysts entertained questions from the audience. Following is a summary of the "Q&R" session.

What do you look for in potential investments?

Ron Muhlenkamp: We look at companies the way *companies* look at companies. The first thing we look for is a good return on shareholder equity (ROE). Corporate average is about 14 percent. Our [portfolio] holdings average 18 percent. We then look for earnings and revenue growth that can sustain that ROE, and finally, we look for the right price. Folks, our average price/earnings (P/E) ratio today is below ten. So we've got companies that are four points above the average in profitability (ROE), and about seven points below the average in price (P/E). Incidentally, the last time it was at these levels it was February/March of '03. Now we don't expect to repeat the '03-'04 performance, but we have real good companies selling dirt cheap. It's just that the market has been schizophrenic about which way the economy is going, and as those fears dissipate we expect to do rather well.

Our choices today are, "Do we own good companies that are dirt cheap?" Or, "Do we own companies that are fairly cheap, but think the markets are moving their way, short term?" The pattern of the last year has not surprised me, but there is no way I could have predicted the timing of the pattern. For example, we knew early in the year, when commodities and foreign stocks and small caps were going parabolic, that it had to end sometime soon. Whether it ended in January or April or August, however, there was no way to predict. A year ago we were asked, "How can you buy Pfizer or Johnson & Johnson? They haven't done anything in five years!" Well, folks, in those five years, the earnings doubled — it's just that their stocks hadn't done anything. These holdings helped carry the portfolio since July. You see, the

market shifted gears on us. Again, while the pattern has not surprised me, I could not have predicted its timing.

For more than a year, we stated in our newsletter, *Muhlenkamp Memorandum*, that we expected a "transition" period. In our latest *Memorandum* [#80] of October 2006, we stated that we are seeing signs that the transition period is coming to an end. But to pick which specific month it turns, I can't do that. If you can find somebody who can do that, hire them. If you can find somebody who can do that consistently, by all means, hire them.

What I have learned over the years is that if you have good companies at good values, sooner or later, somebody will come along and buy you out. In 1999, the markets didn't care about the stocks we owned, but we got bought out of eight of them, either by management or by competitors. Today, nearly all of our companies are buying in their own stock. Today, the argument is that a lot of companies are worth more if they're privately owned, than if publicly owned. Folks, what that really means is that these companies are cheap! The assumption of the media is that the *public* is the only buyer of stock. That's nonsense. Other *companies* buy companies. One of the reasons we own a fair amount of Merrill-Lynch and Morgan Stanley is that they get big fees on mergers and acquisitions, and on [private] equity pools.

Here's another example: The majority owner of Swift Transportation, the trucking company, announced this week that he's looking to take the company back private. He's paying a 25% premium to the current market price. So the day the announcement is made, the price jumps! Today, a lot of public companies are being priced cheaper than they'd be worth to a private owner.

The point is: whatever method buys us out doesn't matter. As long as we've got good companies at cheap prices, sooner or later, someone will bid up the price. Six months is a short period of time in the economy; some people think it's a long period of time in the marketplace.

But this transition is only six months old [since April].

Can you tell us what you still like about homebuilders, if anything, and what you see going forward?

Ron Muhlenkamp: We first started buying homebuilder stocks back in April 2000, when it looked to us like we were facing a recession. At the time, these stocks were trading at five times earnings — and we fully expected that earnings would get cut in half during the recession of '01. That did not happen.

Back in 2000, we were buying companies like Ryan Homes which sold at something like \$75 per share. Since then, it's gotten as high as \$850 and then rounded back to \$400 [per share]. It's now back to \$550, or something like that. In the last year, Ryan has bought back 15% of its own stock and is in the process of buying 5% more. While this is just one example, the homebuilders we own are good companies, doing useful stuff with their cash flow. Incidentally, this is the third time in six years that such stocks have corrected at least 30 percent. Now, homebuilder stocks are back at five times earnings — and it looks like earnings *will* get cut in half next year, versus 2006. So if we didn't already own them, I'd have to be buying them.

With that in mind, we have been surprised by the suddenness and degree to which people quit buying houses. Apparently, everybody *does* watch the same news media. The media has been warning about a housing "bubble" since '02. So after three years of ignoring the mass media and actually betting against it, it looks like in the fourth year they've become a bit more correct in their assessment. So, yes, it hurt us this year, but it has helped us tremendously over the last five years.

This has also been true, incidentally, of our energy stocks which are heavy in natural gas. Natural gas, probably a year-and-a-half ago, sold for \$10 per thousand cubic feet (MCF). It got down to \$5-\$6, and it's now at about \$8 per MCF. While

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we don't know what the price of oil or gas will be, we do think that the price will remain high enough that if you are a company that can produce more next year than you did last year, prices will be high enough that the incremental production will be quite profitable. We are trying to own, particularly on the natural gas side, companies that have that capability. Last winter was a warm winter; last summer was a cool summer — meaning that we didn't use as much heating last winter as we had expected, and we didn't use as much air conditioning as we expected this summer. And so, the price of gas went from \$10 per MCF to \$5 per MCF, and now it's worked its way back up to \$8 per MCF. Again, if we didn't already own these companies, we'd have to be buying them today.

Did these holdings hurt us in the last six months, as people feared a major slowdown? Yes they did. If we are right on the economy entering a soft landing, then, we've got to hold them — and we are. Bottom line: we think that people will continue to buy homes and continue to use energy, and that those prices will be high enough that our companies will be rather profitable. So, with hindsight, should we have traded out? Yes. But then, we'd also have to be trading back in.

If, as an individual investor, you were to buy a homebuilder stock today, which one or two stocks would you buy?

Ron Muhlenkamp: Folks, we own six — it's a matter of public record. Take any one of them. But, remember, we don't give individual stock advice. We'll gladly give you our recipe, but you have to bake the cake on your own.

Frankly, I'm reasonably good at managing a *diversified portfolio*, but lousy at picking a single stock. Besides, I learned a long time ago that if I give someone three selections, the wrong one is always picked. If it goes up, they were smart; if it goes down, I was dumb. You can never win.

Where are you finding values today?

Brian Jacobs: We're finding values in larger companies. Five years ago, if you

had asked us if GE, Cisco, Pfizer or Microsoft looked attractive, we would have answered, "probably not." Even though the stocks have doubled earnings, their multiples have compressed. As a result, the price-to-earnings (P/E) ratios have come down. We are finding more attractive names among larger companies than we have in years.

We go about it one-at-a-time, looking company by company. You never can tell when it's going to happen, but we're willing to wait two or three years. We're willing to be early, and we're finding more opportunity in large-cap stocks.

What about technology stocks?

Jack Kunkle: It's an exciting time in technology, primarily because we've gone through about 20 years of hardware and software battles to get to the point where, finally, the technology is going to begin to service us!

I believe the major trend today is the delivery of software services and content to any device in the family room, including a television set or some palm device. I don't think that a personal computer [in the family room] will serve as the platform of choice for consumers. I think it may be through a flat-panel television set, perhaps a set-top box or an internet connection. And it's going to be seamless and ubiquitous, all done, perhaps, through a remote control. This is where a lot of the big guys and the little guys are focusing their R&D dollars. While there appears to be no major leader in this particular trend, we are watching it very closely

Ron Muhlenkamp: We think that Jack's assessment of the trend is accurate. The difficulty is identifying companies that will benefit specifically. We're now taking a harder look at technology, than when folks were asking about it several years ago. I think our standard comment was, "We'll get interested, when we no longer hear the questions." About six months ago, at one of these events, was the first time when we received no questions on technology — which pretty much means that everybody has sold out of it, I think.

Can you tell us a little about the outlook for pharmaceuticals and healthcare companies, especially given the elections?

Tammy Neff: Right now, there is talk in the press about the change in leadership in the Senate and House. There is speculation that with a Democratic majority, the stage has been set for price controls to be implemented in the US pharmaceutical industry. This is a complicated issue with advocates on both sides; however, it would indeed be a move away from free market principles. These price controls may or may not occur. I think, at this point, it is too soon to tell; it is something that we will continue to monitor. In the meantime, we look at pharmaceuticals or other healthcare companies the same way as we look at *all* companies...one at a time. Any time we can find a good company at a cheap price, we get interested and delve a little deeper until we develop conviction.

Ron Muhlenkamp: An election year is a great time to beat up on the drug companies. But once you are in office, you'd have to be a real idiot to try and put them out of business. I mean, do we complain about the price? Yes. But we buy the drugs because they work.

What are your thoughts on foreign investing?

Tammy Neff: We look for good companies trading at value prices and, in that regard, wherever the company is headquartered doesn't matter. Location is not a constraint for us. That said, when investing internationally, you have to consider some additional risk factors like currency risk, accounting differences, and geopolitical concerns.

Ron Muhlenkamp: Folks, just because something is growing rapidly doesn't necessarily mean that outsiders can make money on it. Remember the "dot-com's?" We were told that the Internet was the new railroad. What they didn't bother telling you is that the average railroad in this country has been bankrupt five times. By implication, what they didn't bother telling you was that some of the Internet companies would go bankrupt too. We

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still have the Internet, just as we still have the railroads. But that doesn't mean that all the companies who were a part of that growth would make you money.

If you are a Chinese company, are you being run for the benefit of the shareholders? Or, are you being run for the purpose of hiring more people and creating jobs? Some companies, some industries, are run to create jobs for the citizens. That's a legitimate goal, but it doesn't necessarily benefit the stockholders.

Right now, we own CEMEX out of Mexico, and BHP Billiton out of Australia. That's about it. We bought them because they are good companies, selling at cheap prices. We don't care where they are domiciled.

Please comment on Ginnie Mae's.

4 *Ron Muhlenkamp:* Both Ginnie Mae's and Fannie Mae's are mortgage-backed securities. Think of these securities as the opposite side of a mortgage. For you and me, every month we make a mortgage payment of which a certain amount is interest and a certain amount is principal. Twenty or 30 years ago, we would take out a mortgage from a bank or a savings and loan (S&L), and they would hold that mortgage. Every month, they [financial institutions] would take our mortgage payments and put them in their vault. After the debacle of the 1980s, with S&Ls going out of business, companies like Merrill-Lynch got the idea to "pool" a group of mortgages and sell them to the public. Instead of the public buying bonds, people would buy Fannie Mae- or Ginnie Mae-backed mortgage pools. Two things happened: First, while interest [mortgage] rates may have been as low as 5%, you could buy a Ginnie Mae or Fannie Mae mortgage pool that paid 7%-8%. Remember, however, that with a bond, you get an interest payment every year and, when the bond matures, you get your principal back. With mortgage payments, each payment is part interest and part principal. When it matures, it's done — because each payment has been part principal.

When it comes to people wanting "more income," Wall Street hasn't been

real religious about telling them that only 5% is income and the other 2% is principal. People like being able to spend more money — and the payments they received were viewed as all income. So buying mortgage-backed securities has been a popular thing on Wall Street — and helped get the S&Ls off the hook — and the payouts [yields] are somewhat higher because you are also getting back some principal with each payment. The difficulty is when you and I refinanced our mortgages from 11% down to 8%. If you owned Ginnie Mae or Fannie Mae and you thought you were getting 10½% - 11%, you got paid off. The trouble with owning a Ginnie Mae or a bond is that you are at the mercy of the person on the other side — and when interest rates go up, the value of your holding goes down. When interest rates go down, you get called out.

Folks, one of the financial maxims we quote is from Milton Friedman, who said "There is no free lunch." And I follow that with "There is no free income, either." Anytime somebody promises you a plus on one side, there is going to be a minus on the other. Sometimes, the plus is greater than the minus. Make sure you ask what you are giving up to get that plus. For example, you can make more money in stocks than bonds, provided you can live with the volatility. We spend a lot of time trying to tell you why we don't think volatility is all that bad. The bottom line: when somebody promises you a plus on one side, you are giving up something on the other side. It might still be a good deal because you might care more about the plus than the minus. But just make sure you go into it with your eyes open. Nothing is free.

Does the number of interest-only mortgages affect your confidence in consumers?

Ron Muhlenkamp: Of all homeowners, about 18% have adjustable-rate mortgages. Forty-eight percent have fixed-rate mortgages, and the balance is people who have paid off their mortgages. Of the 18% adjustable-rate, about 6%, or one-third, is either interest-only, or sub prime

Countrywide Mortgage, one our holdings, is the largest mortgage-writer

in the country. They say people have been converting adjustable-rate or interest-only mortgages before they had to, because with a rate like 6.2%, it pays them to do so. Are there some people who are going to get squeezed when their adjustable rate goes fixed? Yes. Do we monitor it? Absolutely. Do we think it's going to shut things down? No. Do we think it's going to affect some folks? Yes.

In the 1980s we had clients in Texas who, when mortgage rates went from 13% to 10%, could not refinance because the value of their home fell by more than the equity in the home. Today, Texas is in good shape. The places in trouble are where the values ran up too fast. A year ago, we told a client who owns a property in Naples [FL] that his house in Pittsburgh was a "house" — and that the price on his condo in Naples was "half house" and "half speculation." I said, "If you want, sell your condo and move someplace else; buy it back a couple of years from now." And he responded, "Well, no, I bought it to live in it." So, the things you hear have an element of truth, but that doesn't mean they are universally true.

What is the economic impact of "shipping jobs overseas" and things like China and India taking production away from the United States?

Ken Dupre: Basically, this is an argument about free trade. In the short term, you can track the very visible job losses that hit the market and, obviously, hit the media. What often gets overlooked when jobs go overseas is, "Who wins?" One thing that you don't see measured is how many times the *consumer* wins. Getting goods better, faster, cheaper is never measured.

The other big winner is business. When you examine the long-term effects of free trade, you notice that the jobs being exported are in industries that are experiencing declining profits and have become less competitive. In free markets, capital flows away from declining, low-profit industries to growing, high-profit industries. Economic convention tells us the jobs in the declining, low-profit industries will slowly disappear even if they are not exported, because new capital will be invested into higher-profit

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industries and labor-saving machines. By imposing quotas and tariffs, we are helping ailing industries to limp along and keeping resources from stronger industries that are trying to grow. If you want a vibrant economy, allow free trade to happen. Let consumers and businesses best allocate the capital and the labor.

Ron Muhlenkamp: How many of you want the job your grandfather had? How many of your kids want the job your father had? My son, Jeff, called home several years ago when the Army was downsizing and said, "Dad it's pretty tough when you're in the Army and you don't have job security." I said, "Son, if there's one [company] I'd like to put out of business, it's the Army." And the second job I'd like to put out of business is my dad's job of working in a foundry. My dad never told me that if I "worked hard and kept my nose clean," I could spend the next 20 years working in a foundry. It's not something I aspired to, and it's not something he encouraged me to do.

When I spoke to steelworkers a few years ago, I asked "How many of you want your kids to work in the steel mill for three weeks?" All of their hands went up. Then I asked, "How many of you want your kids to work in a steel mill for 30 years?" Not one hand went up. I responded, "If you don't want your kids to work in a steel mill, just whose kids do you want to work there?" The trick is they wanted that job to disappear the day they retired. They didn't want to retrain, but they also didn't want their kids to have to work in the mill.

Folks, you can't improve without change. What we do very well in this country is to create new jobs; what we do very well is to destroy old jobs. What we do very, very poorly is retrain people for the new, emerging jobs. The whole union structure is to protect the job, rather than to help the employee. Instead of saying, "These jobs are being phased out, and we'll help you retrain for a new one," they try to protect the old. About ten years ago, it was a novel idea that the community college in Westmoreland County [PA] talked to Sony and asked, "What skills do you need?" and then, offered to provide training. The idea that a community college actually talked to an employer,

and asked about what kinds of skills they needed, was considered a new idea. But that's where things are.

Steve Forbes suggests that we should go back on the gold standard to control inflation, claiming it would stabilize commodity prices. Could you comment?

Ron Muhlenkamp: While I think it would be useful, I don't think it's going to happen.

The interesting thing about inflation is we calculate it by adding up prices, but that's not what causes it. What causes inflation is the Federal Reserve printing money. In the 1960s we could get away with it because we were lending money to the rest of the world — and people in this country didn't fear inflation, they feared depression. The Humphrey-Hawkins bill, which basically said, "We'll do anything to get unemployment down," was passed in the late-1970s, when the problem was inflation, not depression. Today, we can't get away with printing money because you couldn't sneak it by anybody in this country, *and* you can't sneak it by the people who lend us money.

The Japanese and the Chinese buy our Treasury Bonds voluntarily, but if we started printing money — and they didn't trust the value of the dollar — there are other places they can go. So we don't have the flexibility to inflate like we did in the 1970s; plus the fact that everybody worries about it. Folks: "In economics, what everybody fears doesn't happen."

Remember Y2K? We worried about it for two years, which means we also took steps to ensure that when it happened, it wasn't a big deal. We were asked about it six months before, and I said that it would be no worse than a winter snowstorm in Pennsylvania. There would probably be some inconveniences and there might even be some power outages, but if you live in Pittsburgh and aren't prepared to be without power for a couple days in the wintertime, you don't know where you are living. So our phrase is, "In economics, what everybody fears doesn't happen." Today everybody fears inflation. Frankly, we're more susceptible to depression, but we monitor that too.

Would a gold standard fix it? Probably. Will we get one? Very unlikely.

There has been some attention lately on corporate executive compensation. Is this a problem and, if so, how will it be resolved? Plus, how big a factor is it in your investment decisions?


Brian Jacobs: If the CEO or chairman has presided over a strategy and an execution that has created many times more wealth for the shareholders, I don't see why there should be a limit on corporate executive compensation. On the other hand, all the potential gains that could be realized by the shareholder should not be handed over to the CEO, just like you wouldn't want to give it away to a union. Hopefully, there is enough decent oversight so that those inefficiencies can be wrung from the system. Frankly, this is why shareholders have a vote.

Ron Muhlenkamp: I'm going to go a little beyond that. Roughly five years ago, Jack Welch retired as the chief executive for General Electric. They named Jeff Immelt as the new chief exec and then, what happened? About 15 top people went elsewhere for a lot more money. Folks, I think many chief execs are overpaid in this country. But when you get your proxy materials, look at what happens to the pay of the number two, three, four and five persons. What happened at General Electric? You had 12-15 folks who, six months earlier, could have gone elsewhere for a lot more money. So you would have to argue that they were underpaid. But as long as they felt they had a shot, an honest shot, at being chief executive of General Electric, they stayed around. Once that decision was made, they went elsewhere.

If chief executives are overpaid, how can the system work so well? It is because all of middle management is underpaid. At General Electric, if you overpay one person, you can underpay several thousand. If you look at any corporation, the top person gets all the headlines — and the grief — and the money. But just a step down, these folks are paid no better than an anesthesiologist or what-have-you. The next time you get proxy

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materials, take a look at what everybody underneath the chief exec gets paid, and you'll find out that most are pretty modest. 

The comments made by Ron Muhlenkamp and his Investment Team are opinion and are not intended to be investment advice or a forecast of future events.

Small-and medium-capitalization companies tend to have limited liquidity and greater price volatility than large-capitalization companies.

Cash Flow is often used by analysts to gauge financial performance. Companies with ample cash on hand are able to invest the cash back into the business in order to generate more cash and profit.

Return on Equity (ROE) is a company's net income (earnings), divided by the owner's equity in the business. This percentage indicates company profitability or how effectively a company is using its equity capital.

Top Ten Holdings as of 12/31/06

Company	Industry	Percent of Net Assets
Cemex S.A.B de C.V. - ADR	Construction	5.53
Merrill Lynch & Company, Inc.	Diversified Financial Services	5.27
The Allstate Corporation	Property & Casualty Insurance	5.01
Countrywide Financial Corporation	Consumer Finance	4.70
Citigroup, Inc.	Diversified Financial Services	4.39
American International Group, Inc.	Property & Casualty Insurance	4.34
ConocoPhillips	Integrated Oil & Gas	4.23
Johnson & Johnson	Pharmaceuticals	4.19
UnitedHealth Group	Managed Health Care	3.97
Capital One Financial Corporation	Consumer Finance	3.88

Fund holdings are subject to change at any time and are not recommendations to buy or sell any security.

Price-to-Earnings Ratio (P/E) equals the current stock price divided by the current

earnings per share; it is the price currently paid for \$1.00 worth of earnings.

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Average Annual Returns as of 12/31/06

	Past 3 Months	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years	Since Inception 11/1/1988
Muhlenkamp Fund							
Return Before Taxes	8.88%	4.08%	11.82%	10.64%	13.29%	14.52%	14.01%
Return After Taxes on Distributions**	8.74%	3.95%	11.71%	10.58%	13.07%	14.23%	13.66%
Return After Taxes on Distributions and Sale of Fund Shares**	5.95%	2.83%	10.20%	9.29%	11.89%	13.25%	12.81%
S&P 500**	6.70%	15.80%	10.44%	6.19%	8.42%	10.64%	11.82%

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.

The Fund imposes a 2.00% redemption fee on shares held less than 30 days. Performance shown does not reflect redemption fee. Had the fee been shown, performance would be lower.

***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.**

***Returns subject to change pending valuation of qualified dividend income percentage.**

****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.**

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.

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ANNOUNCEMENTS

2006/2007 IRA Contributions

Contributions can be made to your IRA for tax year 2006 by the due date for filing your 2006 tax return, not including extensions. For most people, this means contributions for 2006 must be made by April 16, 2007. This includes Traditional, Roth, and Coverdell Education Savings Accounts (CESA). When making a contribution between January 1 and the due date for filing your tax return, we suggest that you specify the year for which you are making the contribution. Too many people realize too late that they made a current year contribution (i.e. the year in which the contribution is actually received), and not a prior year contribution (i.e. the year for which they are filing their return). If you have any questions about this, please call us toll-free at (877)935-5520, extension 4.

Traditional and Roth IRA contribution limits are \$4,000 for both tax years 2006 and 2007. "Catch-up" contributions are \$1,000 for tax year 2006 and for tax year 2007. If you need more information, IRS Publication 590 is a good source. You can download copies of these publications at <http://www.irs.gov>.

CESA annual contribution limits are \$2,000 for each beneficiary. Please refer to IRS Publication 970 for more information.

Remember: It's not too early to begin funding your 2007 IRA. Equity returns compounded over long periods can be truly amazing.

2006 Distributions

An income dividend of \$.73817 per share was paid on December 28, 2006 to shareholders of record on December 27, 2006. IRS Form 1099-DIV will be issued during January 2007 to all taxable accounts that received a dividend in excess of \$10.00. There was no capital gains distribution for the Muhlenkamp Fund for the year ended December 31, 2006.

Reminder:

For all redemptions over \$50,000 from any account, the signature(s) on the redemption request must be guaranteed by an "eligible guarantor institution." These include banks, broker-dealers, credit unions and savings institutions. A broker-dealer guaranteeing signatures must be a member of a clearing corporation, or maintain capital of at least \$100,000. Credit unions must be authorized to issue signature guarantees. Signature guarantees will be accepted from any eligible guarantor institution that participates in a signature guarantee program. A notary public is not an acceptable guarantor.

Please refer to the most recent Prospectus for additional information.

MARK YOUR CALENDAR

The World Money Show

February 7-10, 2007

Gaylord Palms Resort, Orlando, FL

Ron Muhlenkamp will deliver two free workshops: *Harvesting Profits on Wall Street* and *Where to From Here?* Lisa Muhlenkamp-Cox, regional manager, will deliver *How to Choose a Money Manager*.

To register, please call (800)970-4355 or visit www.moneyshow.com and reference priority code #005073. If you would like to talk with us at the show, please stop by our exhibit booth, #1117.

ASPPA 401(k) Summit 2007

February 25-27, 2007

Manchester Grand Hyatt, San Diego, CA

Please stop by our exhibit booth #109.

Muhlenkamp & Company Investment Seminar

March 1, 2007

Marriott Century Center Atlanta, GA

7:00 p.m.

Ron Muhlenkamp will deliver *Harvesting Profits on Wall Street*.

To register, please call (877)935-5520 extension 4 or visit www.muhlenkamp.com.

RSVP by February 23.

Better Investing Investors Fair

March 30, 2007

Four Points by Sheraton Pittsburgh North, Cranberry Township, PA

Now Available on DVD

Where to from Here?

As presented by Ron Muhlenkamp at the Semi-Annual Investment Seminar...



...A candid overview which starts with a review of the markets and our investment performance, followed by the data Ron and our analysts are using to conclude that the economy is in a soft-landing and many investments are currently attractive.

To request a copy of this free DVD, please phone us toll free at (877)935-5520, ext 4.

MuhlenkampMemorandum
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November 9, 2006
Investment Seminar

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