

MuhlenkampMemorandum

Issue 82

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On March 31, 2007, the Net Asset Value of the Muhlenkamp Fund was \$83.79, down \$3.36 year-to-date.

Quarterly Letter

by Ron Muhlenkamp



A shareholder recently asked, "In light of last year's performance, do you intend to take any action to modify the current investments in the Fund?" My response was (is) "Do you really want me to change a philosophy and discipline that's worked well for 40 years because we could have done better in a transition year like 2006?"


Folks, we've looked dumb before: the years 1994 (soft landing); 1998-99 (bubble); and 2002 (recession aftermath) are the most recent precursors to 2006. Each time we found that monitoring the economy and relying on the values of companies was the proper response. To that end:

The economy continues to expand.

The rate of expansion is a bit below 3% which is what the Fed was seeking, so the Fed remains on hold. We continue to believe that Q3/06 will prove to have been the slowest quarter of GDP growth in this business cycle, although the current pattern may be shallow (saucer shaped), rather than deep and quick (cup shaped).

The news is full of the repercussions of the Fed's tightening; this time it is focused on the sub-prime mortgage area.

Folks, when the Fed tightens, it's because an area of the economy got overdone and their actions are meant to cause pain in that area. A number of weaker firms go out of business and the stronger firms gain market share and go on to prosper. Because of the time lags in the system, the maximum pain for these firms is often 3-4 quarters after the time of maximum squeeze. For an investor, this becomes the ideal time to buy the good companies cheap.

At this point, we believe that we're getting a chance to do it again. To the extent that the economy is cyclical, investors get a new chance every cycle (sort of like gardening or farming). Meanwhile, the markets remain quite volatile on a day-to-day basis; this will continue. 

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.

MARK YOUR CALENDAR

Muhlenkamp & Company Investment Seminar

April 26, 2007
Heinz Pittsburgh Regional History Center

2:00 p.m. and 7:00 p.m. (ET) sessions
2:00 p.m. webcast

Ron Muhlenkamp will deliver *Back to Basics*.

To register, please call (877)935-5520 extension 4 or visit muhlenkamp.com. RSVP by April 23.

NAPFA National Conference

May 2-6, 2007
The Sheraton Chicago Hotel and Towers, Chicago, IL

If you would like to talk with us while at the Conference, please stop by our exhibit booth.

Las Vegas Money Show

May 14-17, 2007
Mandalay Bay Resort & Casino, Las Vegas, NV

Ron Muhlenkamp, will deliver the following free workshops, *Back to Basics: How to Make Money in the Current Investment Climate* and *Where to from Here?* In addition, Ron will participate in *The Wall Street Power Lunch* and a two-hour intensive workshop, *Finding the Market's Best Bargains*. Susen Friday, regional manager (West), will deliver a free workshop on *How to Choose a Money Manager*.

To register, please call (800)970-4355 or visit

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Muhlenkamp & Company, Inc.
Intelligent Investment Management

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The Game of the Stock Market vs. The Business of Investing

A client has asked me to summarize my investment philosophy. With the recent crosscurrents in the bond and stock markets, it seems a particularly good time to do so.

– Ron Muhlenkamp

This essay was originally published in Muhlenkamp Memorandum Issue 33, January 1995.

Past performance is no guarantee of future returns.

Investment Philosophy

I entered this business in 1968. At that time, I had never owned a stock or bond, and I had never taken any courses in Wall Street finance. (I had taken courses in corporate finance.) So, I began my studies with a clean slate.

I soon learned that there are an unlimited number of people with ideas about how to invest your money, and all the ideas sound good at the time. Some of these people are paid to sell newspapers and magazines; some are paid to entertain on radio or television; some are paid commissions to sell financial products; and some are actually paid to manage other people's money.

Only this last group publishes the results of their advice. The others tell me when they have been right, but I have to research what they wrote three to five years ago to get a complete picture. I also noticed that the gurus and the managers who were heroes in any one year seldom repeated; those who had good long-term records tended to stay on top, but they were seldom heroes in any one year.

Since my goals are good, reliable, long-term returns, I decided to study the philosophies of the people with good long-term records. I found that they all own corporate stocks, but their approach



is to look at companies as businesses. And I learned that, over time, stock prices do reflect the values of the underlying businesses.

I also learned that these values and the resulting stock prices have increased by 9%–10% per year, indicating that if a person just buys good companies and holds them long enough, their returns would be 9%–10%.

By contrast, long-term returns on bonds have been 4%–5%, and CDs have been 2%–3%. So I have concluded that, as a long-term investor, my “normal” position is to be 100% invested in corporate stocks.

The “Game” vs. the “Business”

All the problems with investing in stocks are in the short term, where changes in stock prices often seem unrelated to long-term values. Short-term prices are determined by whatever hopes and fears are currently driving the American public to buy and sell stocks. These hopes and fears are fanned by the media, the brokerage community, and various pundits with a short-term agenda.

“The Game of the Stock Market” distracts most people from making money in “The Business of Investing.”

But it is also true that much of the public insists on this short-term agenda and revels in the drama of it. I call it “The Game of the Stock Market” (as opposed to “The Business of Investing”), and it is very entertaining. The game focuses on the most dramatic and volatile aspects of price movements. Even the language is borrowed from gambling, focusing on “winners” and “losers.” The game can also be quite profitable, but requires an iron stomach and an *against the crowd* discipline which few people have.


A Reliable Business

Identifying a top or a bottom does no good unless you have the intestinal fortitude to act decisively on it. Professionals face the same problem.

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In mid-1987, Elaine Garzarelli became justly famous when she identified a short-term market top and avoided the decline in October of that year. But she then failed to buy in a timely fashion, even though her research told her to do so. Consequently, her advantage was dissipated as the market recovered to new highs in 1988 and 1989.

For most people "The Game of the Stock Market" is a distraction which prevents them from making money in "The Business of Investing."

Periodic setbacks and a focus on the game result in their selling stocks when they should be buying, and vice versa. We focus on the long-term "Business of Investing" because we have found it to be more profitable and more reliable. 

MARK YOUR CALENDAR

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moneyshow.com and reference priority code #005073. If you would like to talk with us at the show, please stop by our exhibit booth; #606.

Pershing Insite

June 6-8, 2007

The Westin Diplomat, Hollywood, FL

If you would like to talk with us while at the Conference, please stop by our exhibit booth; #97.

Morningstar Investment Conference

June 27-29, 2007

McCormick Place, Chicago, IL

To register, please visit advisor.morningstar.com.

If you would like to talk with us while at the Conference, please stop by our exhibit booth; #30.

Average Annual Returns as of 3/31/07

	Year to Date	One Year	Past 3 Years	Past 5 Years	Past 10 Years	Past 15 Years	Since Inception 11/1/1988
Muhlenkamp Fund							
Return Before Taxes	-3.86%	-1.73%	8.38%	8.47%	12.61%	13.98%	13.56%
Return After Taxes on Distributions**	-3.86%	-1.85%	8.28%	8.41%	12.40%	13.70%	13.22%
Return After Taxes on Distributions and Sale of Fund Shares**	-2.51%	-0.95%	7.21%	7.36%	11.27%	12.74%	12.39%
S&P 500**	0.64%	11.83%	10.06%	6.27%	8.20%	10.88%	11.69%

Expense Ratio: 1.06%

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. One cannot invest directly in an index.

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 may invest in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The Fund may also invest in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods.

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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BACK



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Join us at the
Heinz Pittsburgh Regional History Center
Thursday, April 26, 2007 at 2:00 p.m. or 7:00 p.m. (ET)

Register to attend in person or via live 2:00 p.m. webcast.
RSVP by April 23, 2007 by calling 877-935-5520 extension 4
or visit muhlenkamp.com

TO BASICS

If you cannot join us on April 26, please know that an online archive will be available on our website, several days after the event. Also, a DVD recording will be available for your viewing convenience; please call 877.935.5520 to request a copy.

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