



Managing your portfolio during uncertain times

**AAll Raleigh–Durham
June 13, 2015**

Tony Muhlenkamp



Muhlenkamp & Company, Inc.
Intelligent Investment Management

Checklist

- 1. Consumer Spending**
- 2. Business Investment**
- 3. Credit Default / Bank Health**
- 4. Velocity of Money**
- 5. Federal Reserve and Treasury**
- 6. Taxes**
- 7. Regulation**
- 8. Europe**
- 9. China**
- 10. U.S. Politics**



Guidelines for Establishing Financial and Estate Planning Priorities

- A. Establishing Priorities**
- I. Protect against disasters**
 - a. Insurance is to protect against financial disasters.
 - b. If it's not financial, insurance doesn't help.
 - c. If it's not disastrous, insurance isn't needed.
 - II. Take care of self and spouse for extended life expectancy**
 - a. How much do we need to live to 100 as well as we do today?
 - b. What are the assumptions about spending, and investment returns?
 - III. Heirs (including grandkids)**
 - a. College
 - b. Inheritance
 - c. Annual gifts
 - IV. Charities**
 - a. What are the advantages of outright gifts versus trusts?
 - b. When should you use your IRA to gift while living and who should you list as beneficiary?
 - V. Avoid, Defer, Minimize Taxes**
 - a. Federal Estate
 - b. Federal Income
 - c. Federal Capital Gains and Investment Income
 - d. State Inheritance
 - e. Probate
 - VI. Lawyer Fees**
 - a. Trusts
 - b. Wills, Living Wills, etc.
 - VII. Insurance Commissions**
 - a. When is insurance an appropriate solution for estate planning?
 - b. Is it the most effective way of accomplishing the particular goal?
- B. Key Principles**
- Estate Planning is part of the continuum; the focus shifts from your needs to the needs of people you leave behind. It doesn't add a year to your life or a nickel to your pocket, but it does make life a lot simpler for those you leave behind.
 - Trusts are designed to allow the benefactor to set specific terms and conditions for the management and distributions of the assets in the trust. The appointed Trustee manages the assets according to the specifications of the benefactor rather than the assets going directly to the beneficiary, thus providing a means to give assets to those you want to have them but still have the spending managed according to your objectives.
 - Anything you want to do with your money after you are gone you should start while you are living.
 - No plan is foolproof if the people involved don't understand what you are doing and WHY. Organize, document, and communicate to spouse, executor, heirs; etc.



Financial Projections

Age 50
 Income \$160,000 increases with inflation
 Soc Sec \$24,000 at age 65
 Inflation 1.0250
 Ret>Inf= 0.050

Childs Age
 College
 Coll Infl 1.06

as of today

Year	Spending	Spending as a % of Assets	College	Property	Savings	Liquid Assets	Inflation Factor	Inflation Adj Spending	Inflation Adj Assets	
50	2010	\$134,000		\$0	\$240,000	\$34,000	\$578,000	1.00	-34000	578000
51	2011	\$137,350	23.76%	\$0	\$246,000	\$34,850	\$656,200	1.03	-34000	640195
52	2012	\$140,784	21.45%	\$0	\$252,150	\$35,721	\$741,136	1.05	-34000	705424
53	2013	\$144,303	19.47%	\$0	\$258,454	\$36,614	\$833,336	1.08	-34000	773835
54	2014	\$147,911	17.75%	\$0	\$264,915	\$37,530	\$933,366	1.10	-34000	845583
55	2015	\$151,609	16.24%	\$0	\$271,538	\$38,468	\$1,041,836	1.13	-34000	920831
56	2016	\$155,399	14.92%	\$0	\$278,326	\$39,430	\$1,159,403	1.16	-34000	999750
57	2017	\$159,284	13.74%	\$0	\$285,285	\$40,415	\$1,286,774	1.19	-34000	1082518
58	2018	\$163,266	12.69%	\$0	\$292,417	\$41,426	\$1,424,707	1.22	-34000	1169324
59	2019	\$167,348	11.75%	\$0	\$299,727	\$42,461	\$1,574,022	1.25	-34000	1260364
60	2020	\$171,531	10.90%	\$0	\$307,220	\$43,523	\$1,735,596	1.28	-34000	1355845
61	2021	\$175,820	10.13%	\$0	\$314,901	\$44,611	\$1,910,377	1.31	-34000	1455984
62	2022	\$180,215	9.43%	\$0	\$322,773	\$45,726	\$2,099,381	1.34	-34000	1561007
63	2023	\$184,720	8.80%	\$0	\$330,843	\$46,869	\$2,303,704	1.38	-34000	1671154
64	2024	\$189,338	8.22%	\$0	\$339,114	\$48,041	\$2,524,523	1.41	-34000	1786674
65	2025	\$194,072	7.69%	\$0	\$347,592	\$49,242	\$2,763,105	1.45	-34000	1907829
Retire										
66	2026	\$198,924	7.20%	\$0	\$356,281	-\$174,924	\$2,795,414	1.48	117833	1883061
67	2027	\$203,897	7.29%	\$0	\$365,188	-\$179,897	\$2,825,173	1.52	118227	1856690
68	2028	\$208,994	7.40%	\$0	\$374,318	-\$184,994	\$2,852,067	1.56	118612	1828648
69	2029	\$214,219	7.51%	\$0	\$383,676	-\$190,219	\$2,875,753	1.60	118987	1798863
70	2030	\$219,575	7.64%	\$0	\$393,268	-\$195,575	\$2,895,860	1.64	119353	1767259
71	2031	\$225,064	7.77%	\$0	\$403,100	-\$201,064	\$2,911,985	1.68	119711	1733756
72	2032	\$230,691	7.92%	\$0	\$413,177	-\$206,691	\$2,923,693	1.72	120059	1698270
73	2033	\$236,458	8.09%	\$0	\$423,507	-\$212,458	\$2,930,513	1.76	120399	1660713
74	2034	\$242,369	8.27%	\$0	\$434,094	-\$218,369	\$2,931,932	1.81	120731	1620993
75	2035	\$248,429	8.47%	\$0	\$444,947	-\$224,429	\$2,927,398	1.85	121055	1579011
76	2036	\$254,639	8.70%	\$0	\$456,070	-\$230,639	\$2,916,314	1.90	121370	1534666
77	2037	\$261,005	8.95%	\$0	\$467,472	-\$237,005	\$2,898,032	1.95	121678	1487849
78	2038	\$267,530	9.23%	\$0	\$479,159	-\$243,530	\$2,871,854	2.00	121979	1438448
79	2039	\$274,219	9.55%	\$0	\$491,138	-\$250,219	\$2,837,025	2.05	122272	1386344
80	2040	\$281,074	9.91%	\$0	\$503,416	-\$257,074	\$2,792,727	2.10	122558	1331412
81	2041	\$288,101	10.32%	\$0	\$516,002	-\$264,101	\$2,738,081	2.15	122837	1273522
82	2042	\$295,303	10.79%	\$0	\$528,902	-\$271,303	\$2,672,134	2.20	123110	1212536
83	2043	\$302,686	11.33%	\$0	\$542,124	-\$278,686	\$2,593,858	2.26	123375	1148309
84	2044	\$310,253	11.96%	\$0	\$555,677	-\$286,253	\$2,502,144	2.32	123634	1080689
85	2045	\$318,009	12.71%	\$0	\$569,569	-\$294,009	\$2,395,795	2.37	123887	1009519
86	2046	\$325,960	13.61%	\$0	\$583,808	-\$301,960	\$2,273,520	2.43	124134	934630
87	2047	\$334,109	14.70%	\$0	\$598,404	-\$310,109	\$2,133,925	2.49	124374	855847
88	2048	\$342,461	16.05%	\$0	\$613,364	-\$318,461	\$1,975,508	2.56	124609	772987
89	2049	\$351,023	17.77%	\$0	\$628,698	-\$327,023	\$1,796,648	2.62	124838	685855
90	2050	\$359,799	20.03%	\$0	\$644,415	-\$335,799	\$1,595,598	2.69	125062	594250
91	2051	\$368,794	23.11%	\$0	\$660,526	-\$344,794	\$1,370,475	2.75	125280	497958
92	2052	\$378,013	27.58%	\$0	\$677,039	-\$354,013	\$1,119,247	2.82	125492	396756
93	2053	\$387,464	34.62%	\$0	\$693,965	-\$363,464	\$839,727	2.89	125700	290410
94	2054	\$397,150	47.30%	\$0	\$711,314	-\$373,150	\$529,556	2.96	125902	178674
95	2055	\$407,079	76.87%	\$0	\$729,097	-\$383,079	\$186,194	3.04	126100	61290
96	2056	\$417,256	224.10%	\$0	\$747,324	-\$393,256	-\$193,098	3.11	126293	-62013
97	2057	\$427,687	-221.49%	\$0	\$766,007	-\$403,687	-\$611,267	3.19	126480	-191518
98	2058	\$438,380	-71.72%	\$0	\$785,157	-\$414,380	-\$1,071,492	3.27	126664	-327524
99	2059	\$449,339	-41.94%	\$0	\$804,786	-\$425,339	-\$1,577,193	3.35	126843	-470344
100	2060	\$460,573	-29.20%	\$0	\$824,906	-\$436,573	-\$2,132,055	3.44	127017	-620305



Sample Investment Policy Statement for Municipal Pension Plan

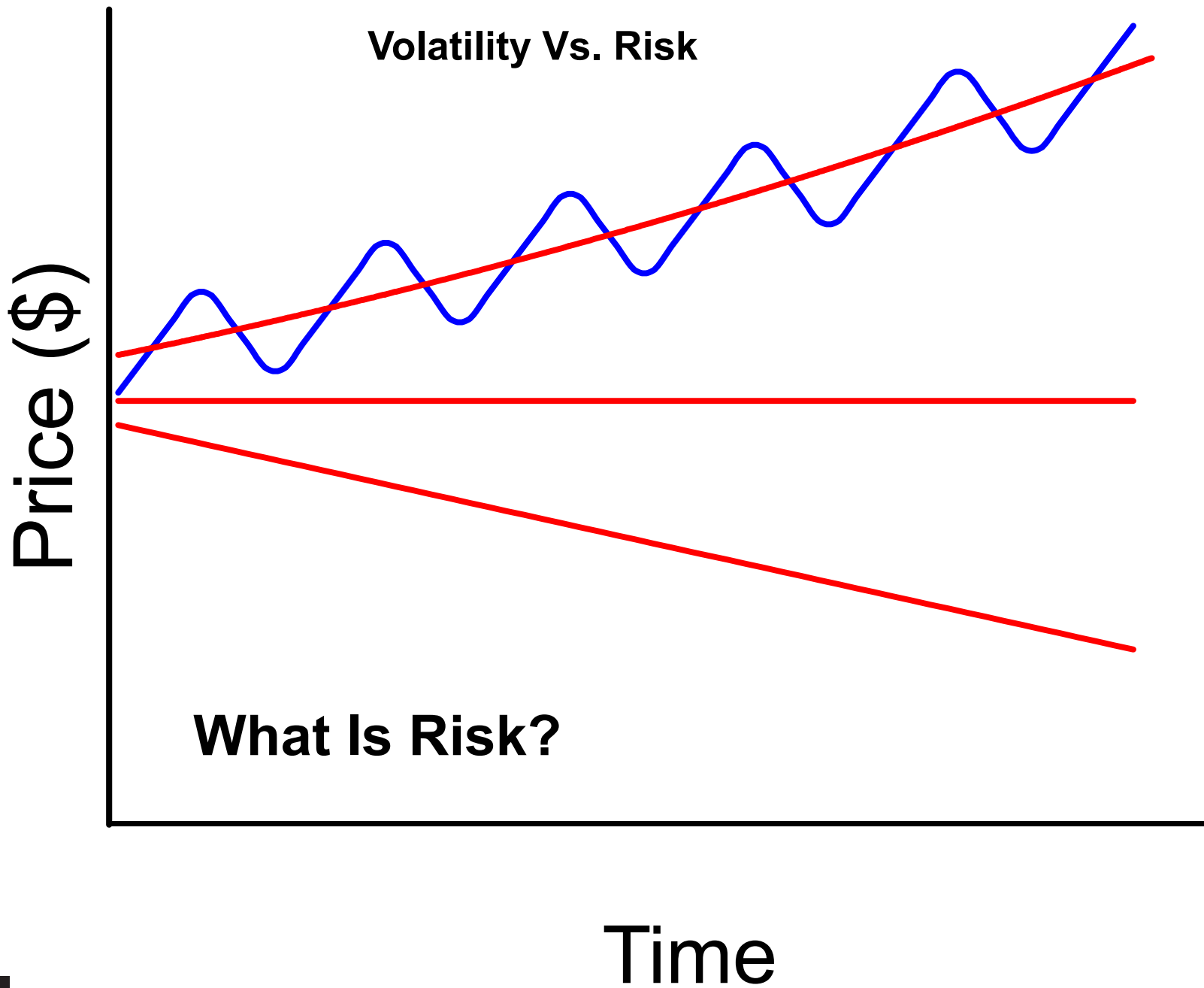
A. Objective	The objective of the Pension Plan is to provide funds for the financially secure retirement of Municipal employees.
---------------------	---

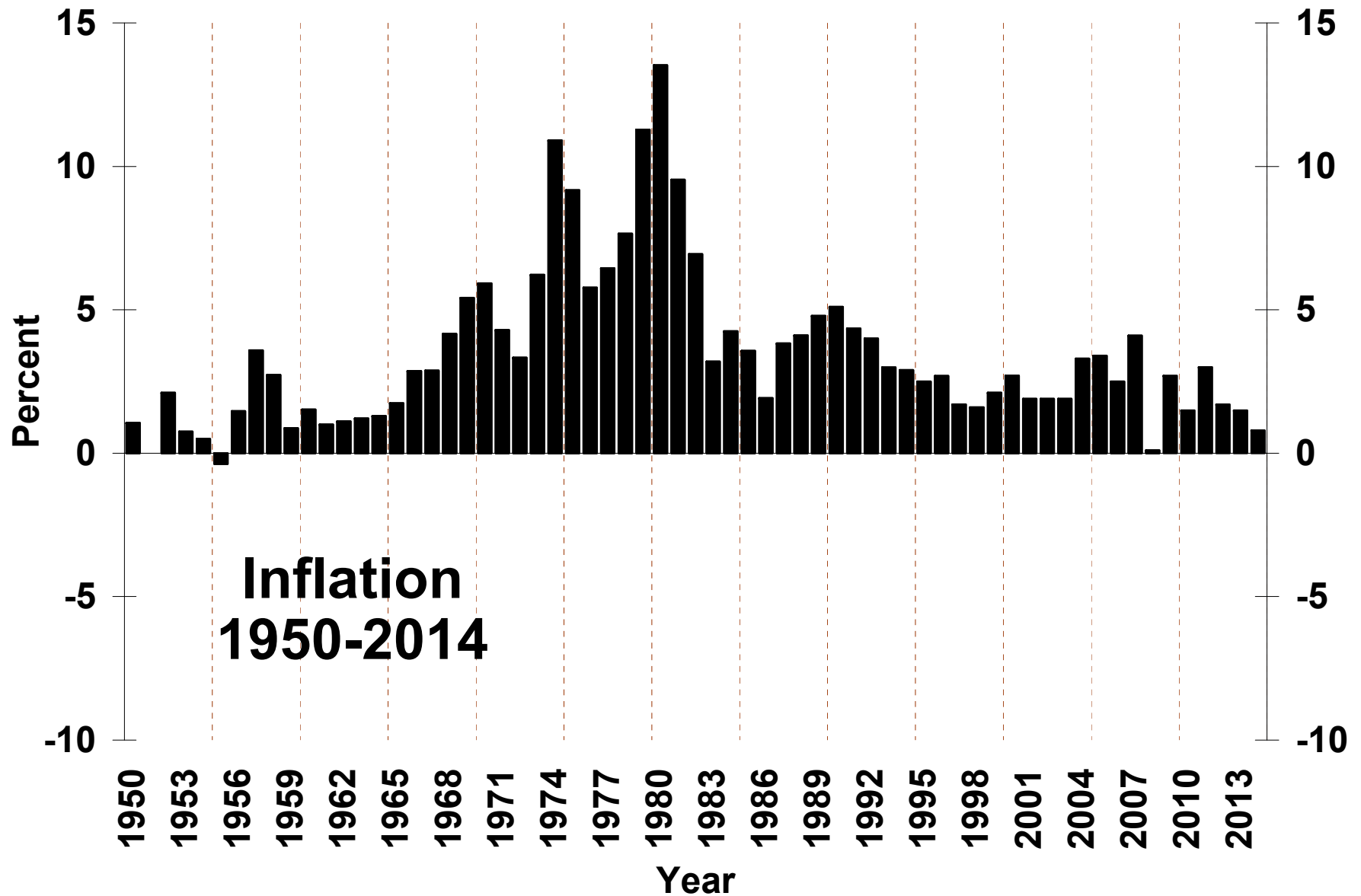
B. Considerations	<p>In planning to meet this objective, several considerations must be taken into account:</p> <ol style="list-style-type: none">1. The Plan's responsibility is to protect its investment and to obtain better than average rates of return. It is not to attempt to obtain extremely high rates by subjecting investment principals to high risk.2. The time span is quite long, encompassing both the accumulation and investment of assets during the employees' working career and the investment and distribution of assets during retirement. For the current plan participants, the expected time span ranges from 10 to 50 years, and averages 20-40. But, since retiring employees are likely to be replaced by new hires, the Pension Plan's relevant time frame is open ended.3. Although the assets and cashflows of the plan are measured in dollars, the goals are most meaningful in terms of purchasing power, i.e., dollars adjusted for inflation. In short, the goal of the plan is to provide sufficient funds at retirement to meet standards set in current dollars, which must be adjusted for future inflation. These goals are reflected in the Plan provisions, such as benefits based on compensation near retirement (averaged over the last three years) and in actuarial assumptions for the plan, which reflect current estimates for those earnings and for interest rates.
--------------------------	---

C. Investment Objectives	<p>Thus, the investment objectives for the Pension Plan are:</p> <ol style="list-style-type: none">1. To avoid extreme and unnecessary risks.2. Long-term in nature (twenty to forty years or more).3. Best measured in terms of purchasing power, that is, the required asset levels and investment returns must be adjusted for inflation. <p>Specifically, investment objectives of the Pension Plan are for total investment returns to exceed the changes in the Consumer Price Index (CPI) by 3-5% per year over any ten-year period. Having stated the above objective, the Pension Board, after due deliberation, has concluded these objectives can best be met through the hiring of a professional investment manager to invest a majority of the plan assets.</p> <p>Recognizing that the investment objective of a 3-5% annual return over the CPI requires the use of some equities and long-term bonds, which can be volatile over short-term periods, the Pension Board has set minimum downside performance limits. These limits are no more than three down years in ten, no year of which can exceed a negative 20% total return.</p>
---------------------------------	--

D. Investment Parameters	<p>Furthermore, the Pension Board has established the following parameters for the management of the plan assets. The plan will invest only in liquid securities of established companies and/or government agencies.</p> <p>The Plan will not:</p> <ol style="list-style-type: none">1. Invest in individual parcels of real estate or in non-liquid partnerships in real estate. It may buy shares in publicly traded Real Estate Investment Trusts (REITs).2. Invest in futures, commodities or commodity contracts, restricted securities, oil, gas mineral or other exploration or development programs.3. Invest or deal in securities, which do not have quoted markets.4. Own more than 10% of the outstanding voting securities of any one issuer or company, nor, with at least 75% of its total assets, invest more than 5% of its assets in any single issue, valued at the time of purchase. This restriction shall not apply to investment in U. S. Government of government agency securities.5. Invest 25% or more of its total asset valued at the time of purchase in any one industry or similar group of companies, except U. S. Government securities.6. Sell securities short.
---------------------------------	---







Source: Bloomberg; US CPI Urban Consumers YoY NSA
 Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



1968



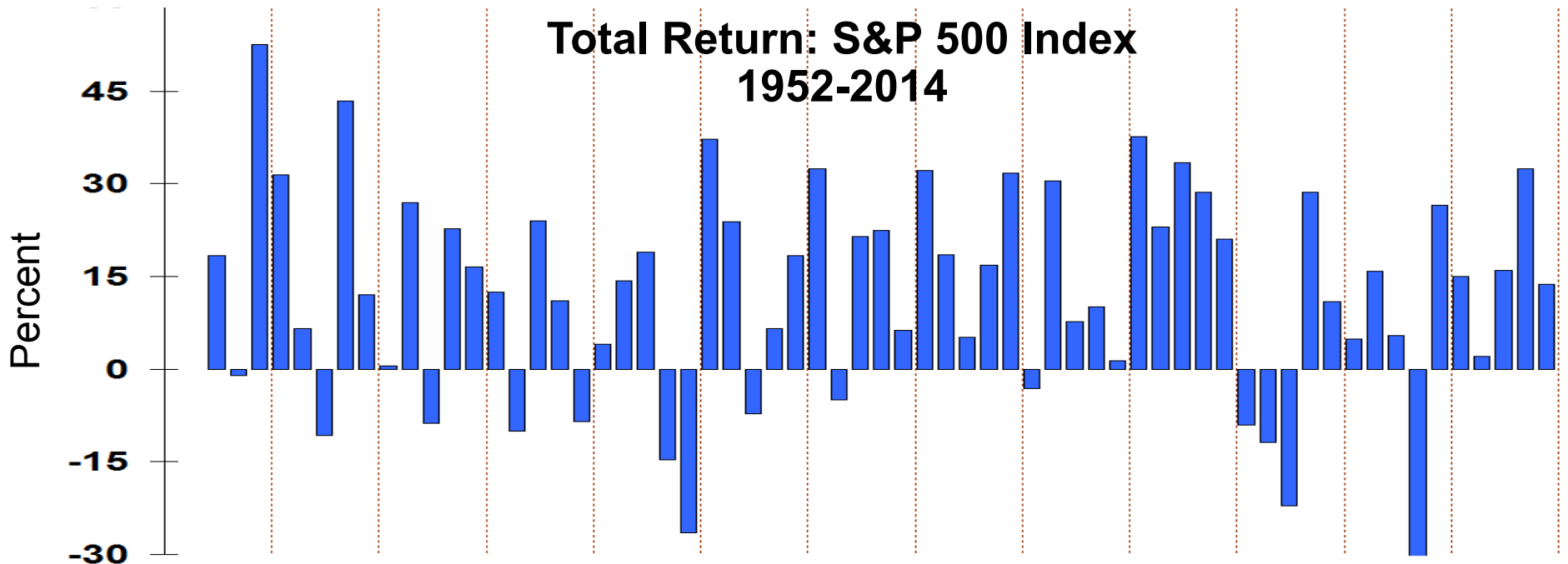
1978



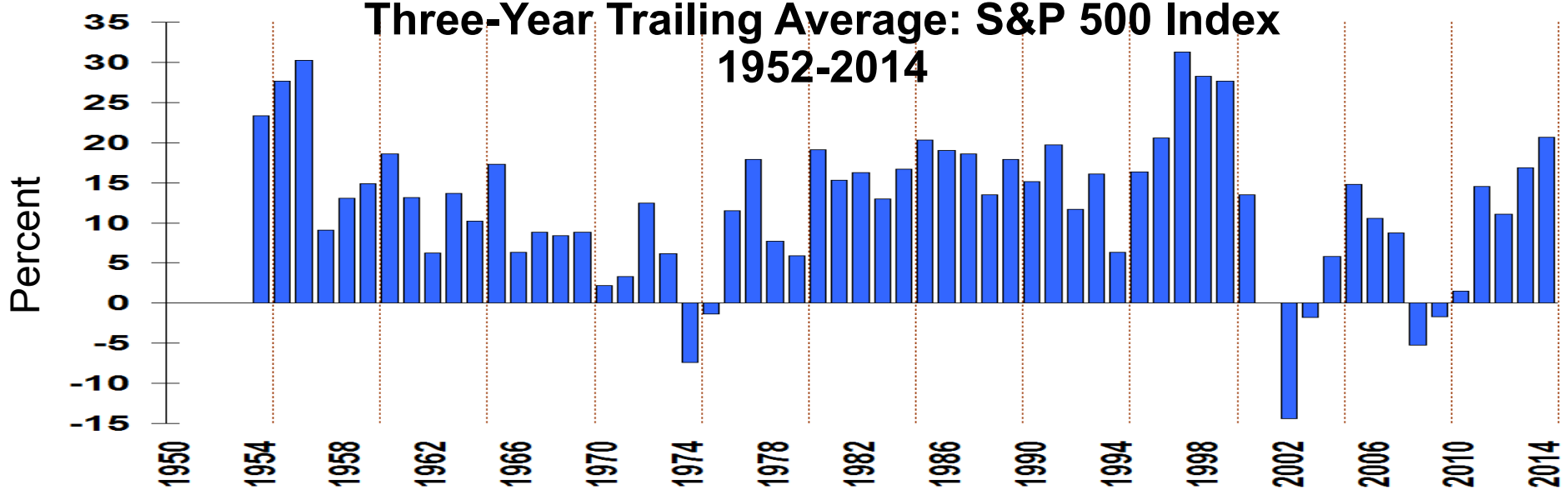
2014



Total Return: S&P 500 Index 1952-2014



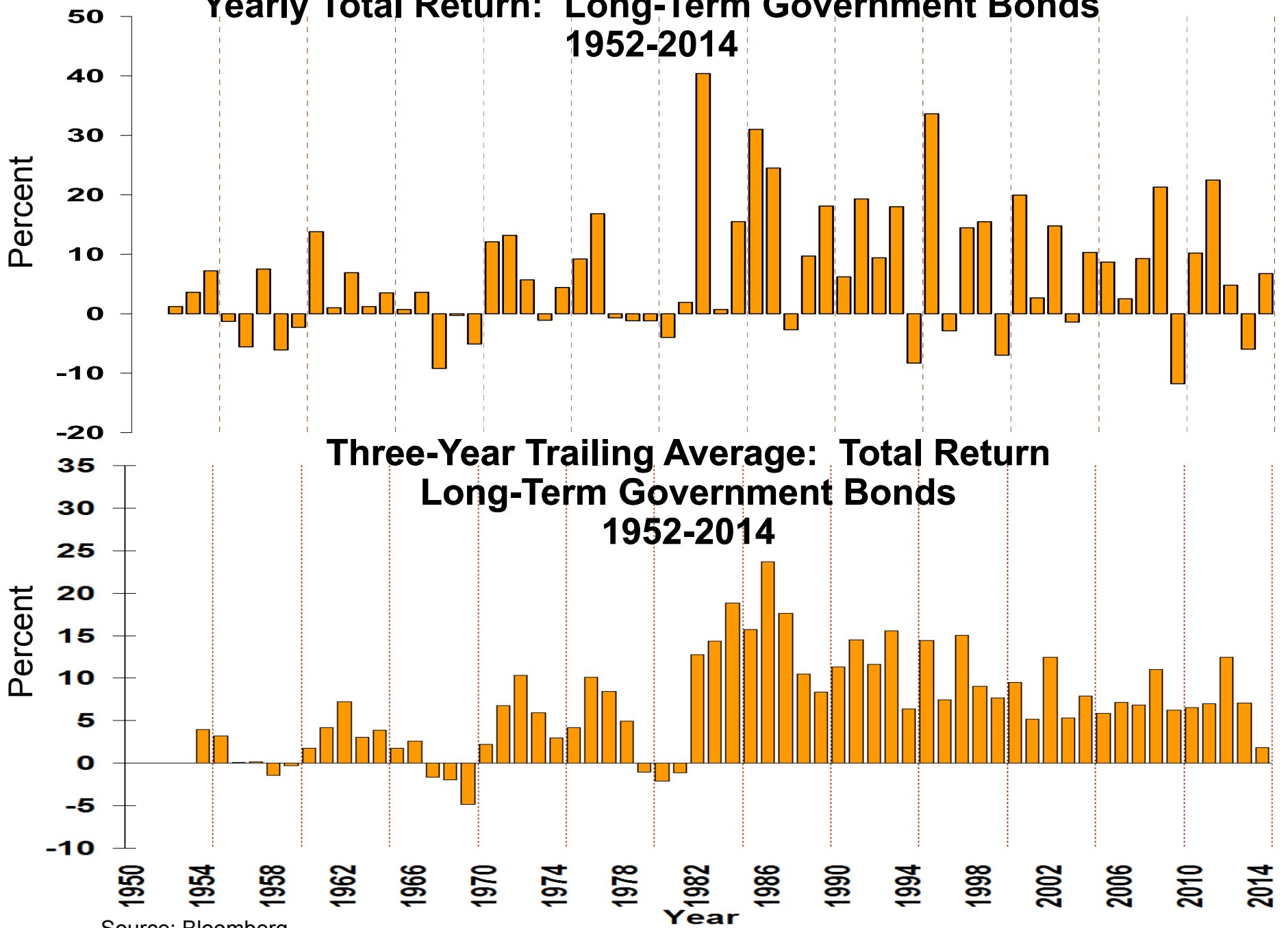
Three-Year Trailing Average: S&P 500 Index 1952-2014



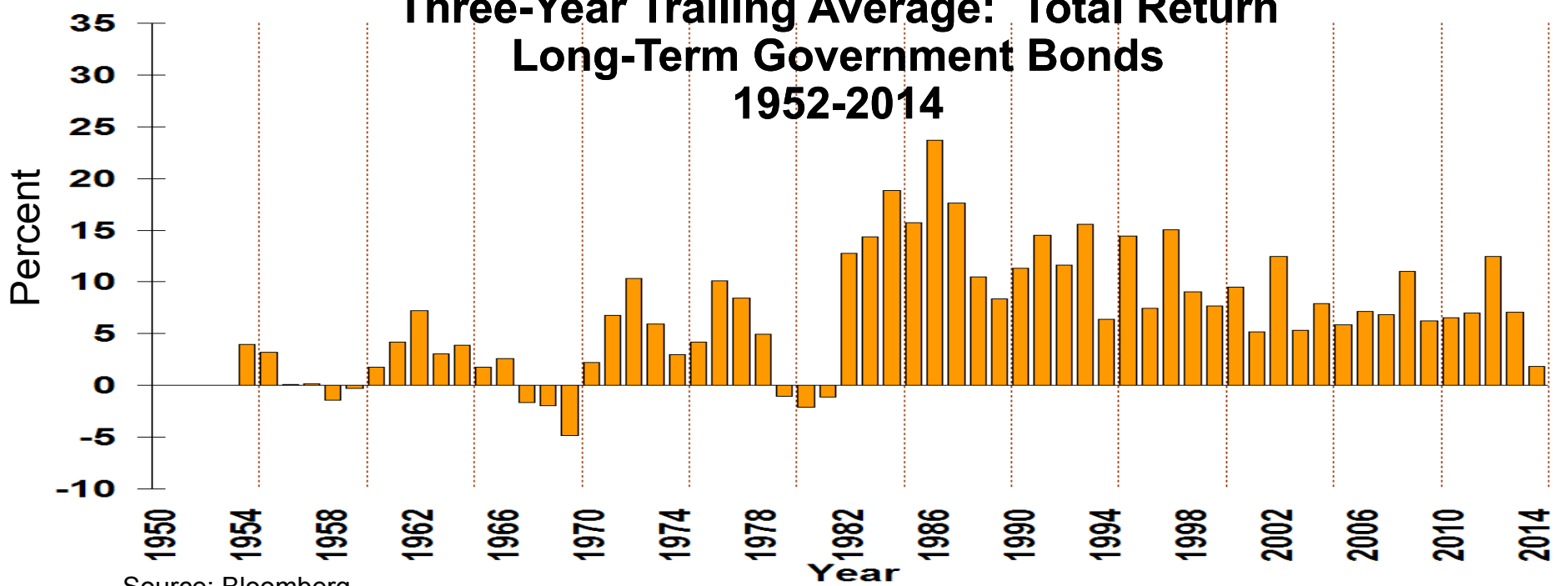
Source: Bloomberg; NOTE: The S&P 500 Index is a widely recognized, unmanaged index of common stock prices. You cannot invest directly in an index .



Yearly Total Return: Long-Term Government Bonds 1952-2014

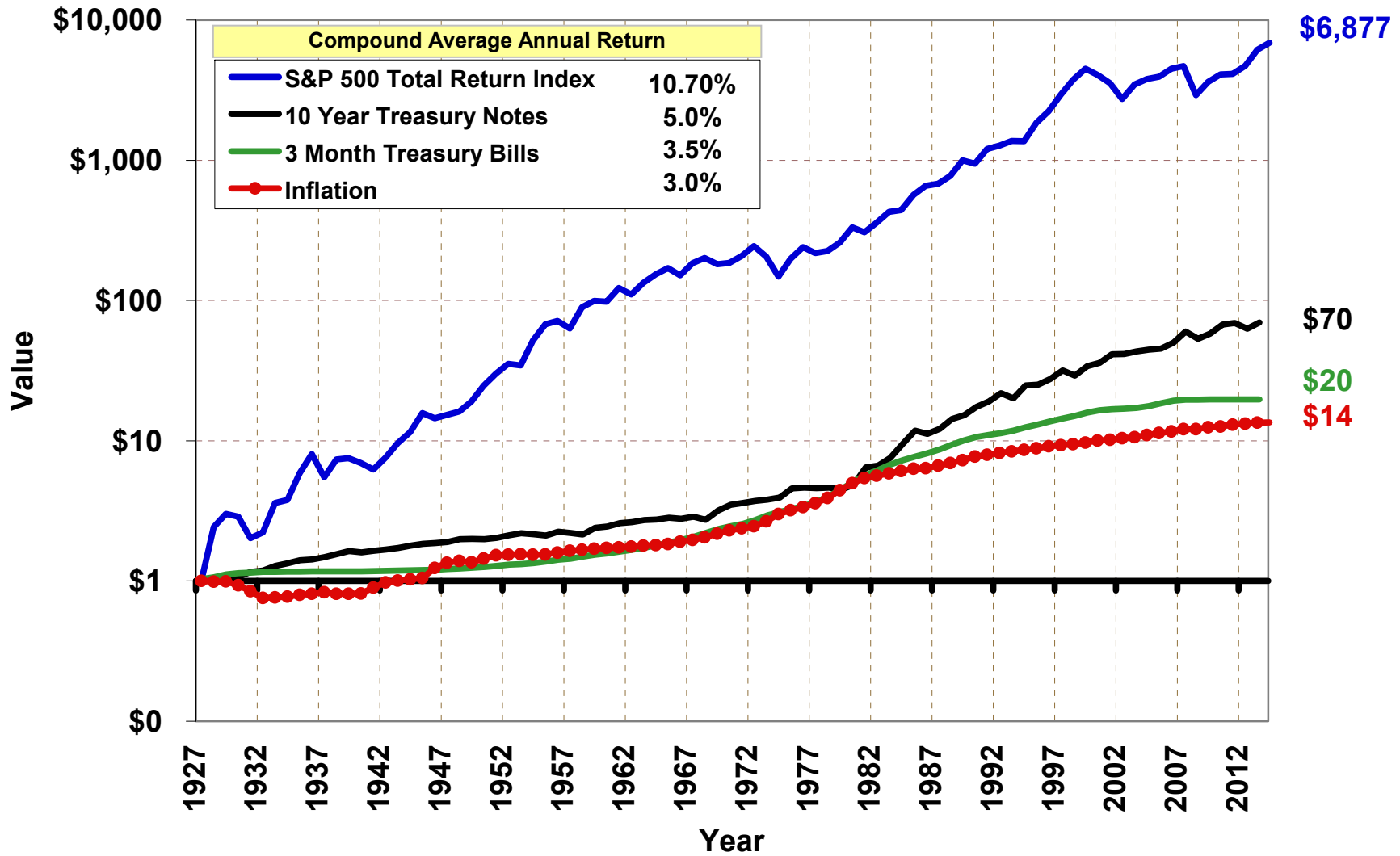


Three-Year Trailing Average: Total Return Long-Term Government Bonds 1952-2014

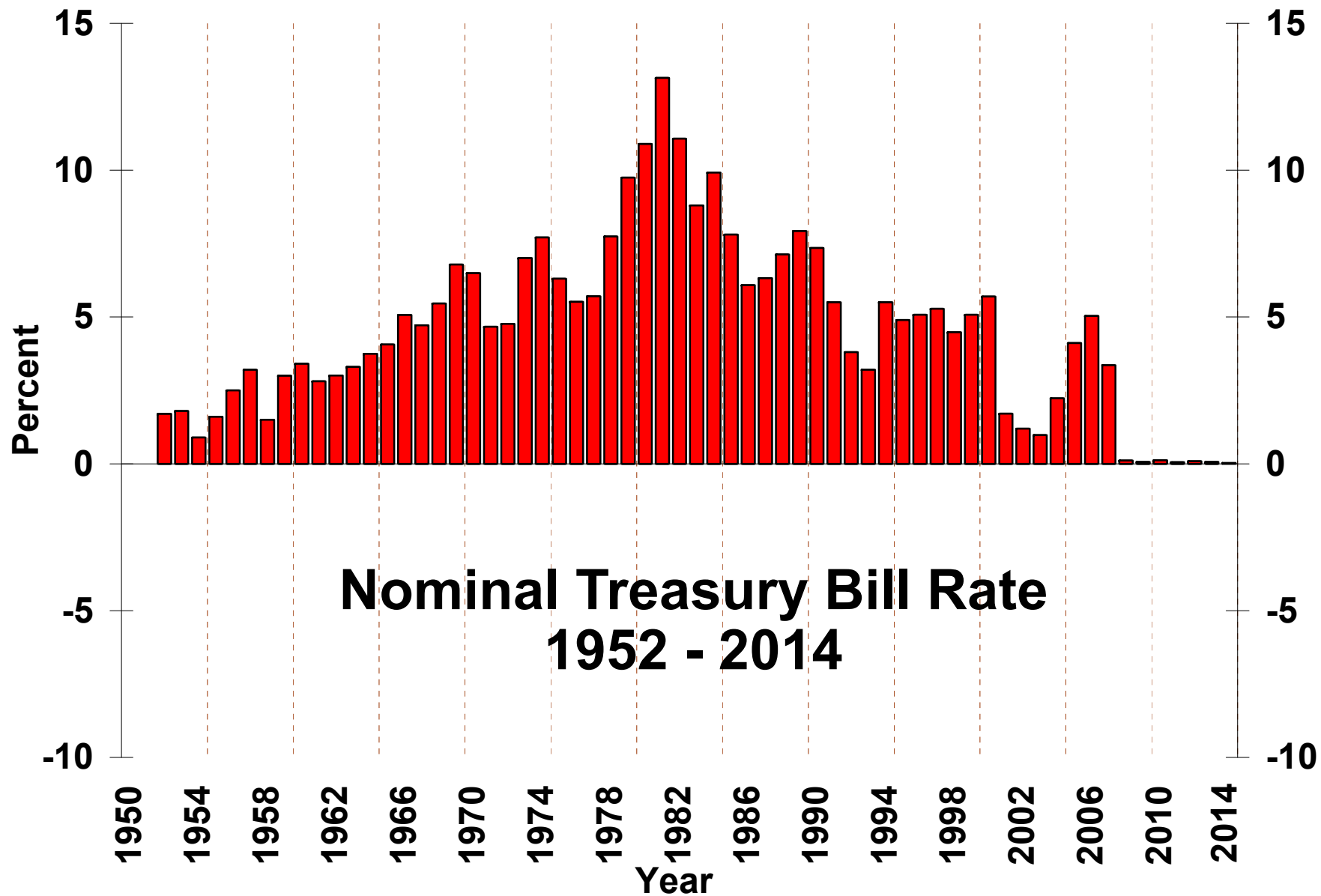


Source: Bloomberg

Stocks, Bonds, Bills, and Inflation 1927-2014



Source: Bloomberg; NOTE: The S&P 500 Index is a widely recognized, unmanaged index of common stock prices. You cannot invest directly in an index.
 Inflation Source: US CPI Urban Consumers YoY NSA

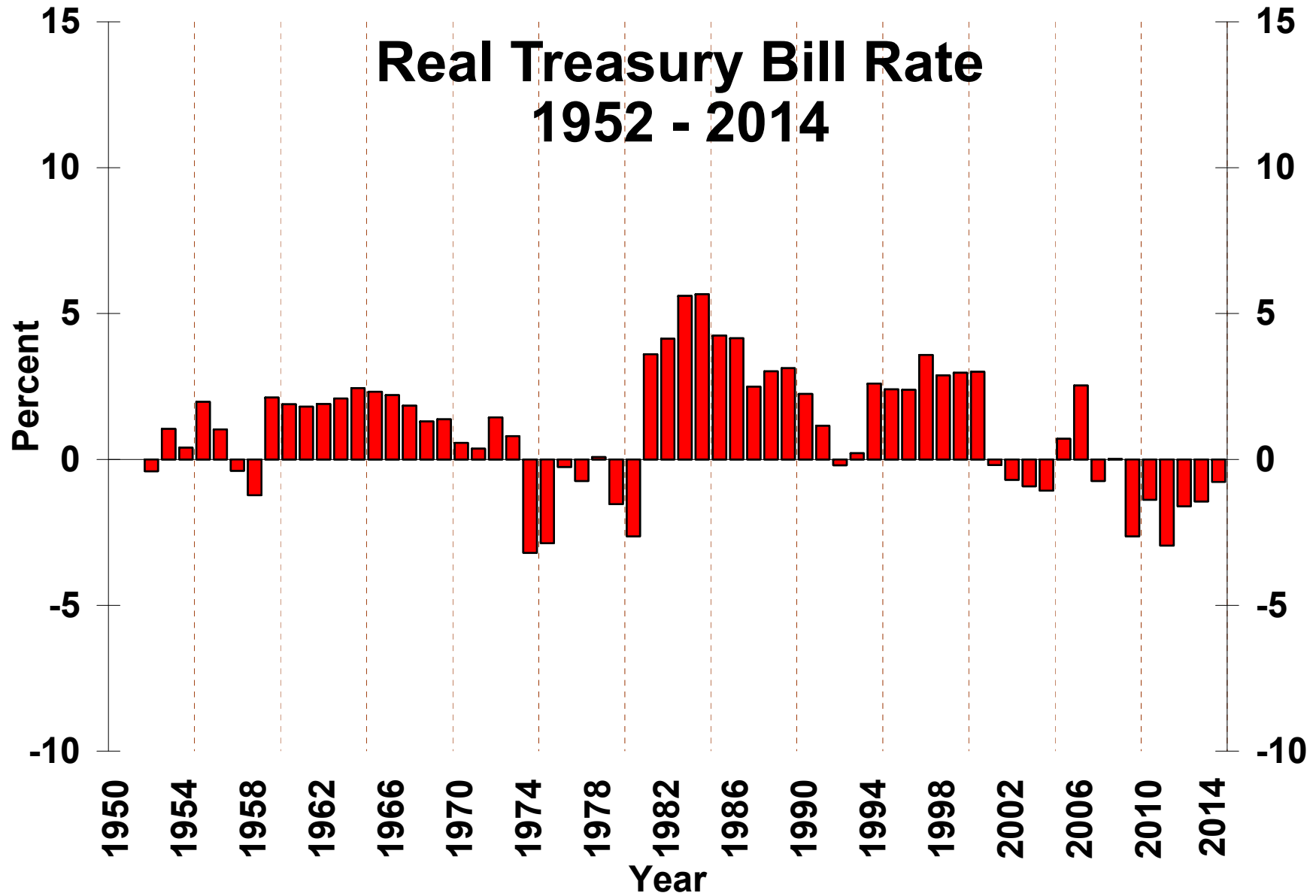


Source: Bloomberg;



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved

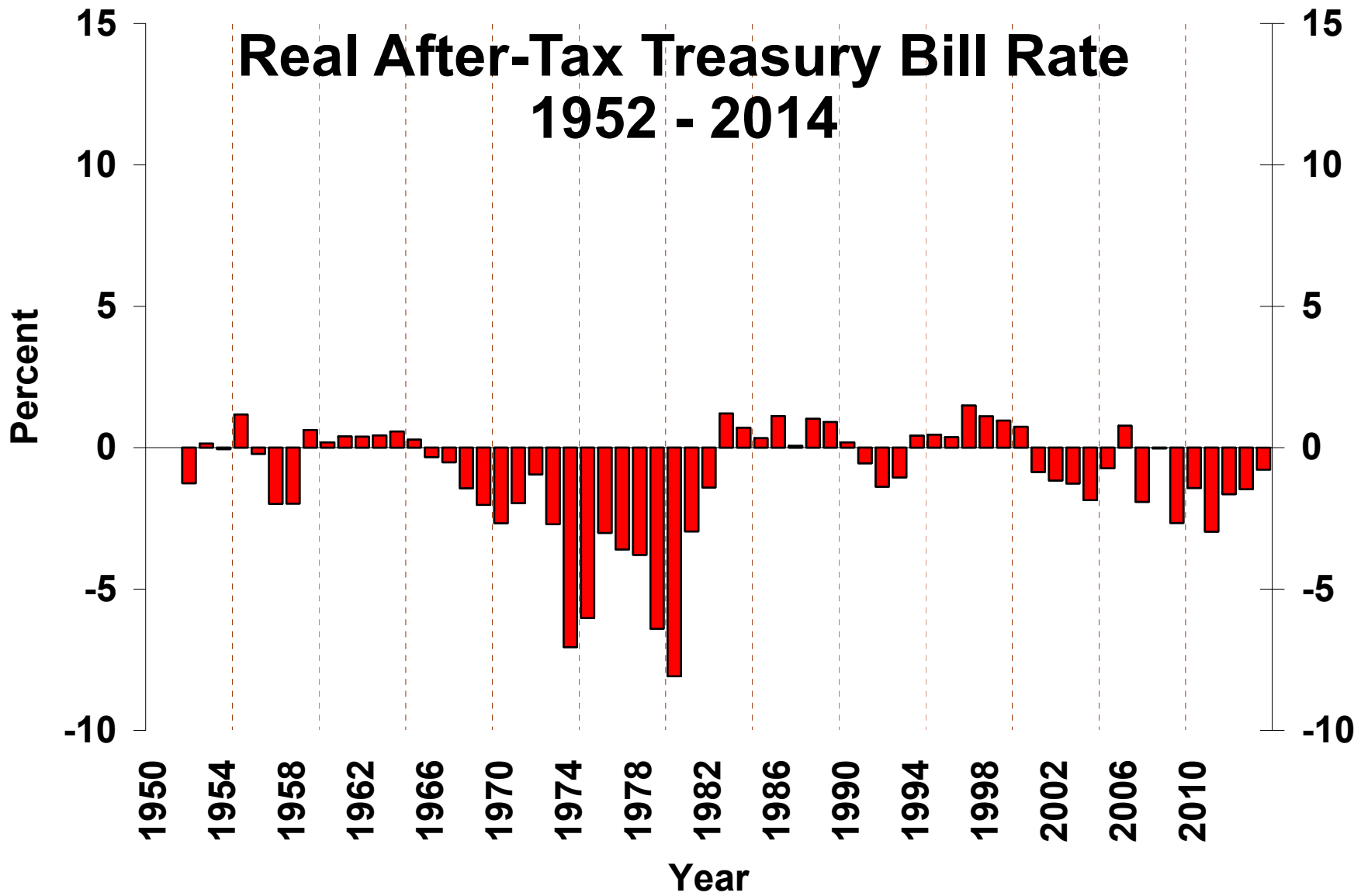
Real Treasury Bill Rate 1952 - 2014



Source: Bloomberg;



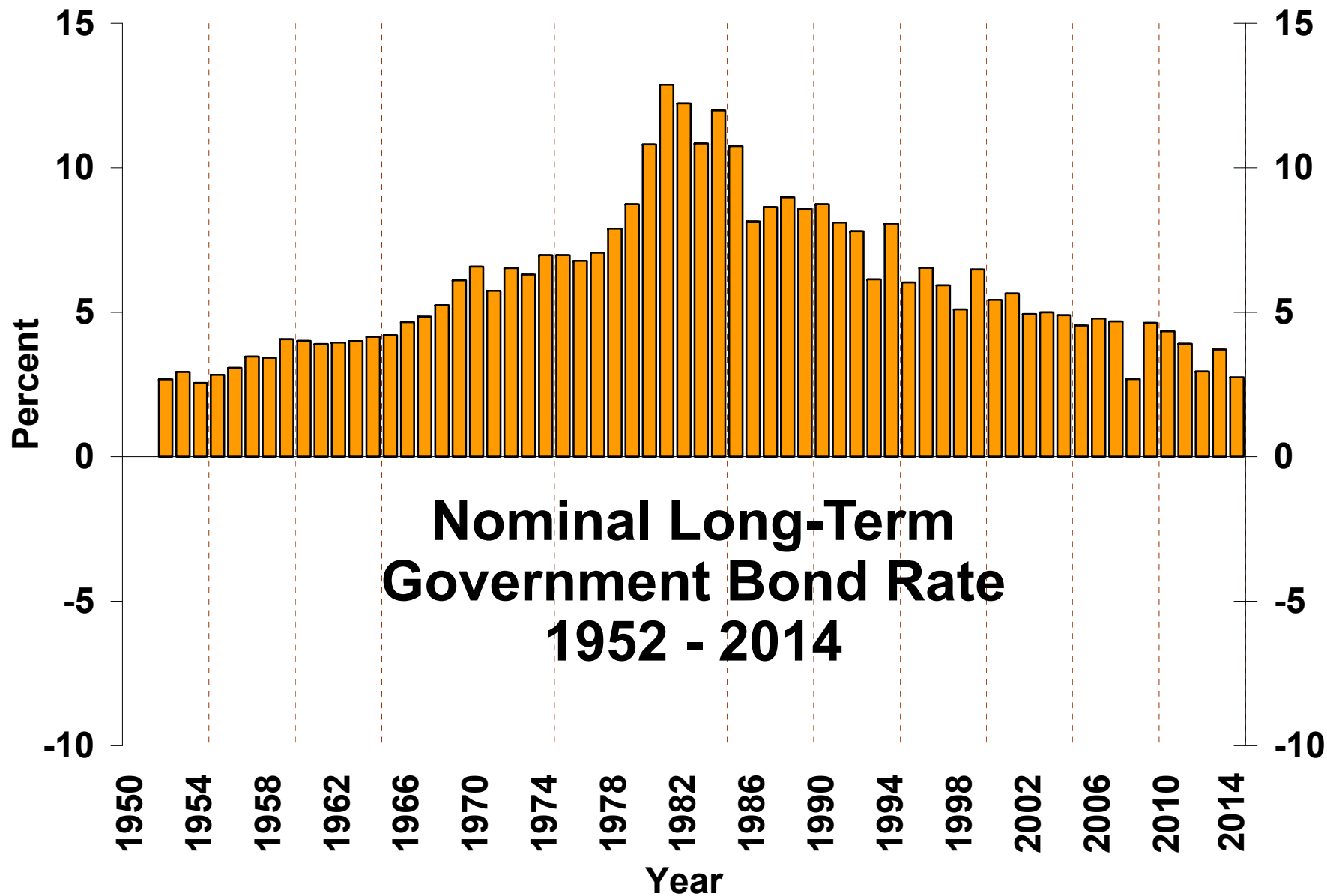
Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Assumes maximum short term capital gain tax rate for each period.

Source: Bloomberg



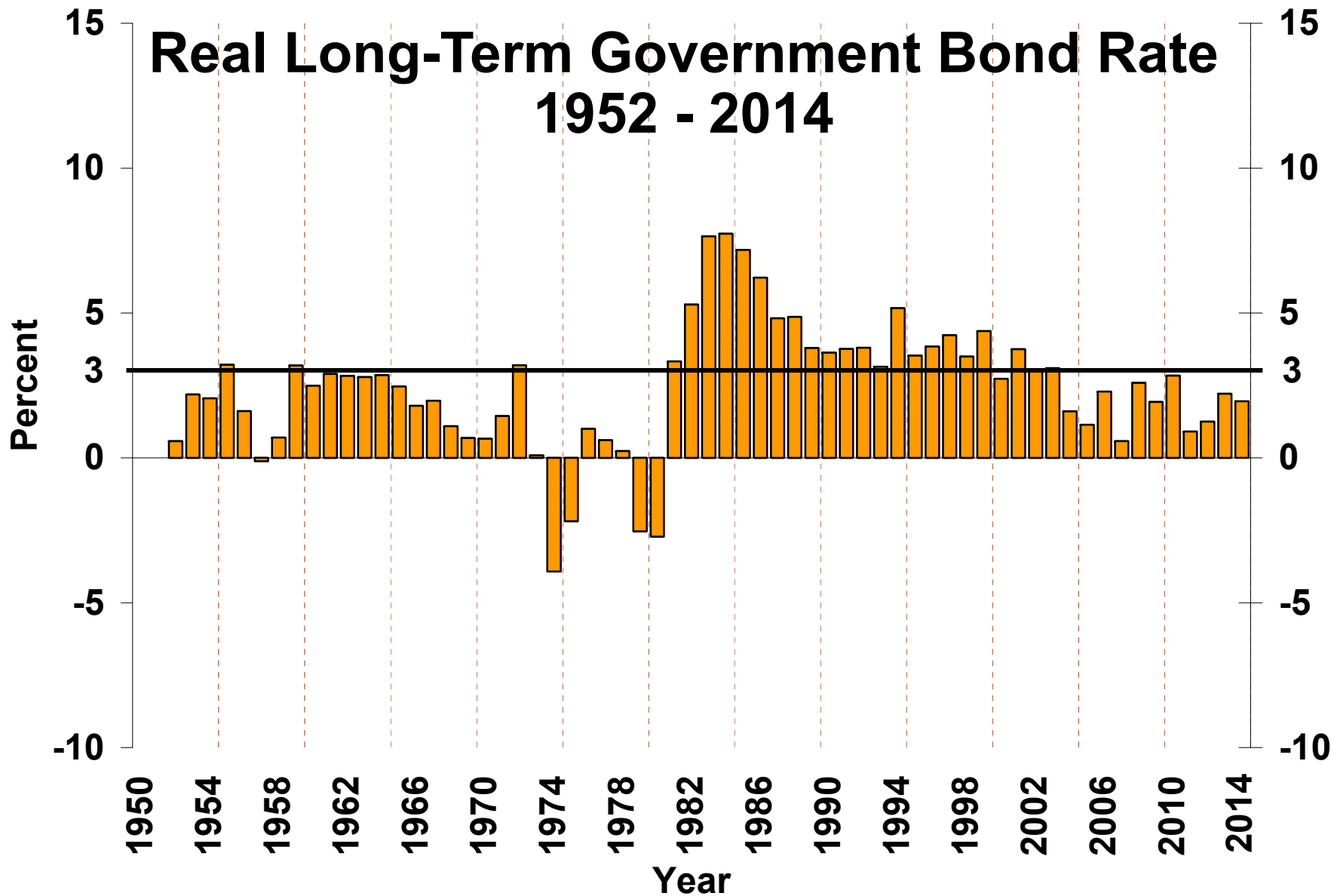


Source: Bloomberg;



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved

Real Long-Term Government Bond Rate 1952 - 2014

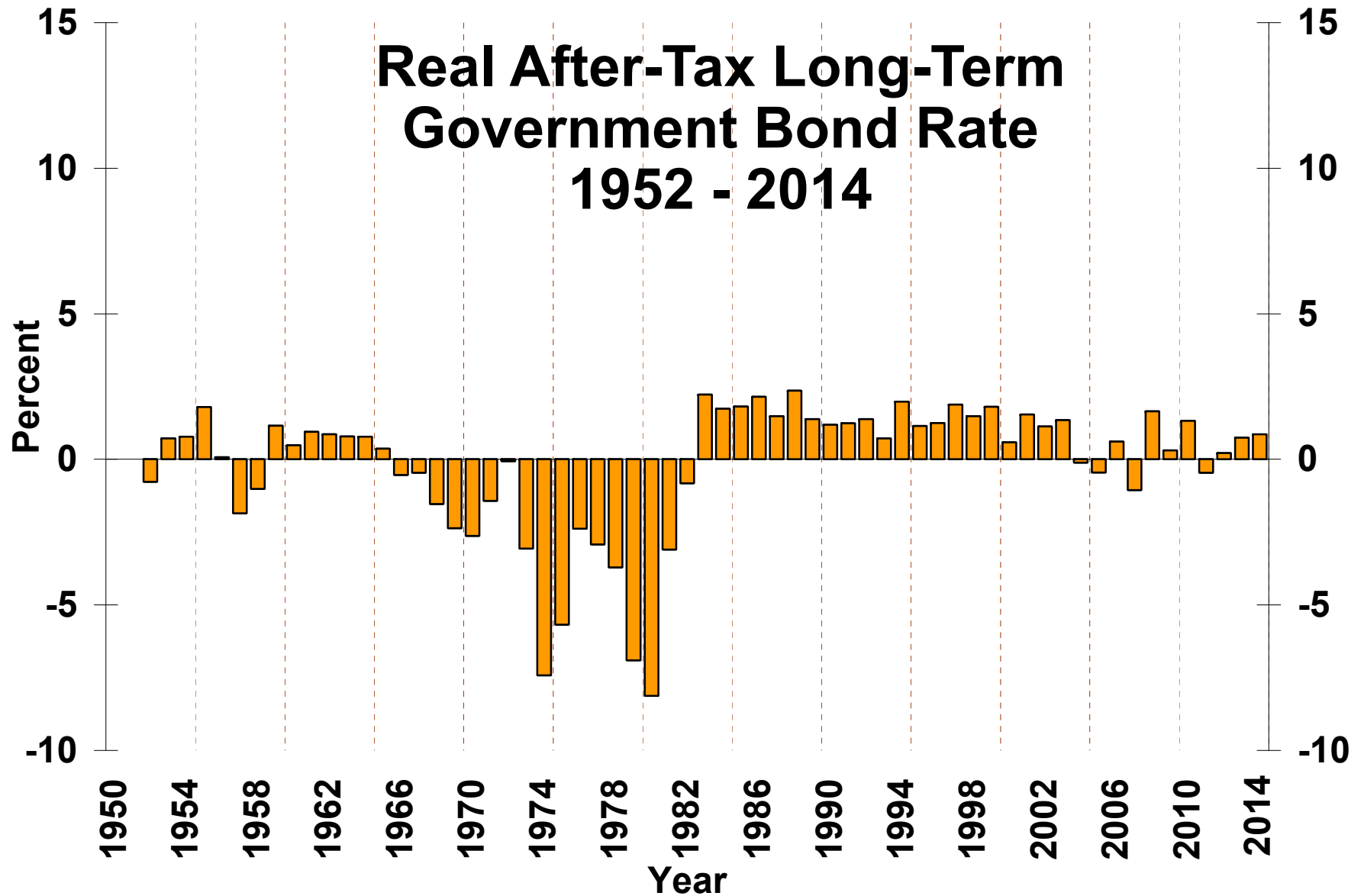


Source: Bloomberg;



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved

Real After-Tax Long-Term Government Bond Rate 1952 - 2014



Assumes maximum short term capital gain tax rate for each period.
Source: Bloomberg

Available Returns (%)

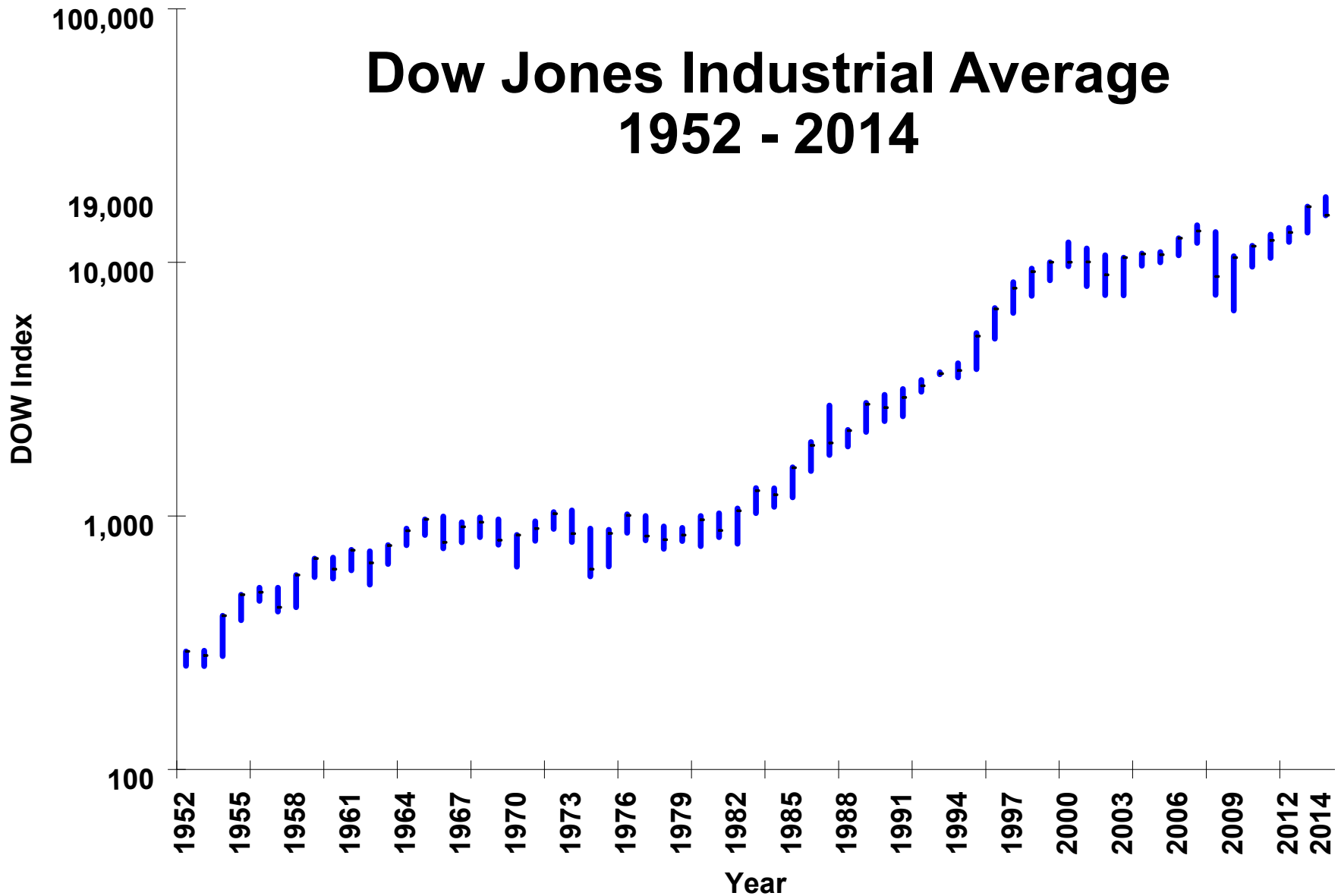
	Nominal	After-Tax	Real After-Tax
Short-Term Debt	0	0	-.8
Long-Term Debt	2.8	1.7	1.68
Equity	8	4.83*	4.79*

- Assuming maximum short term capital gain tax rate is 39.6%.

Note: Long term capital gain rate of 20% would return 6.40% after tax and 6.35% real after tax.



Dow Jones Industrial Average 1952 - 2014

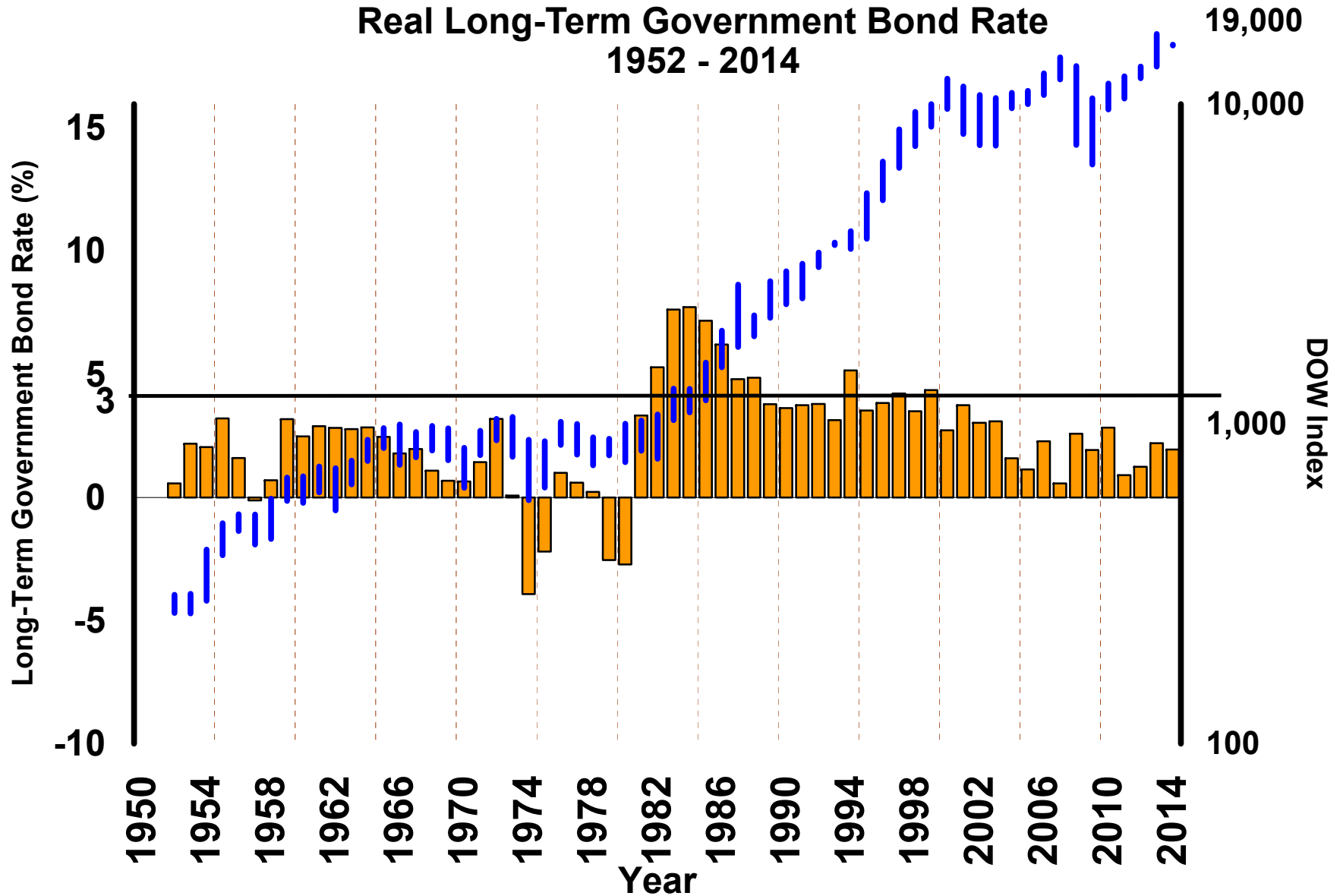


Source: Bloomberg;



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved

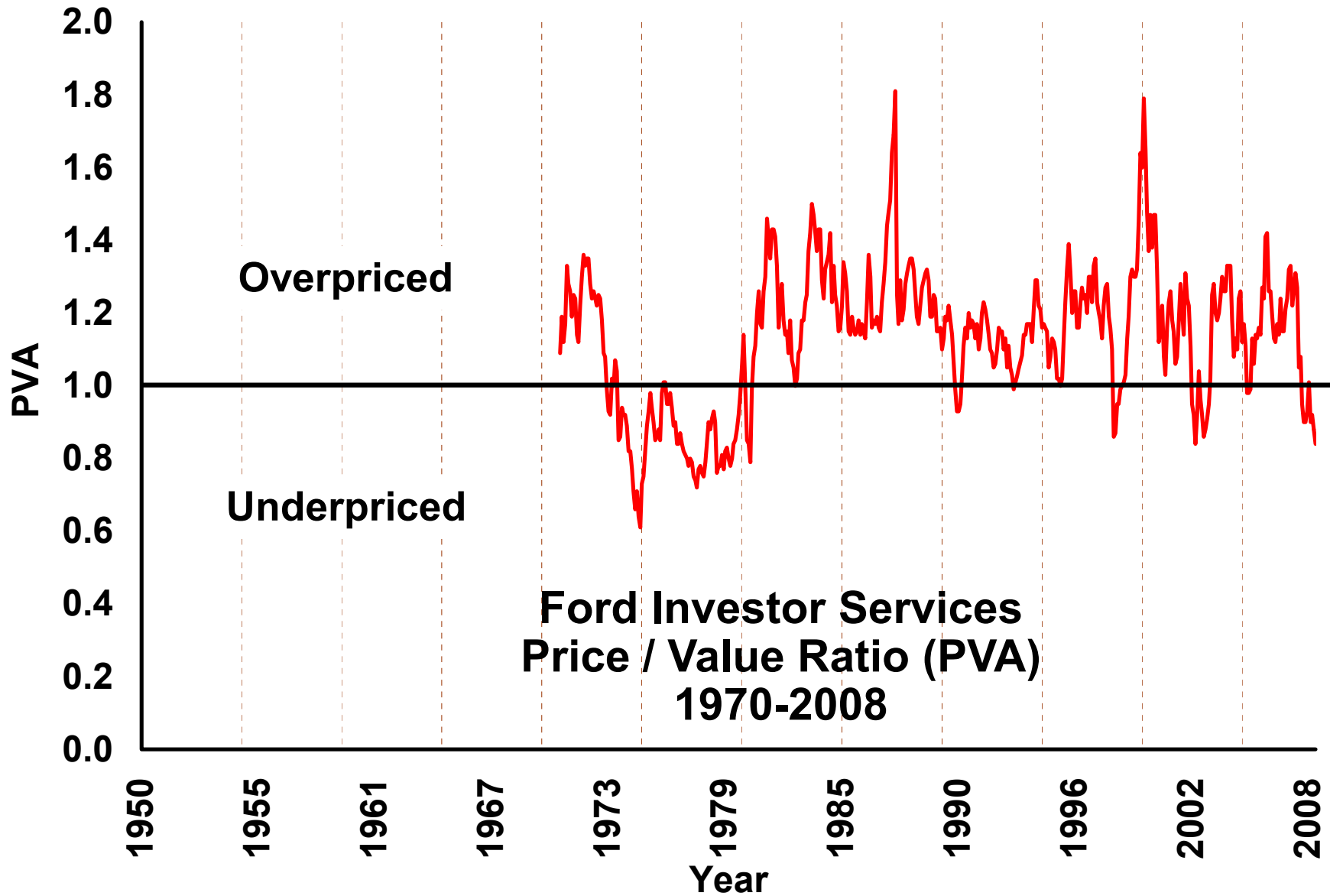
Dow Jones Industrial Average vs. Real Long-Term Government Bond Rate 1952 - 2014



Source: Bloomberg;



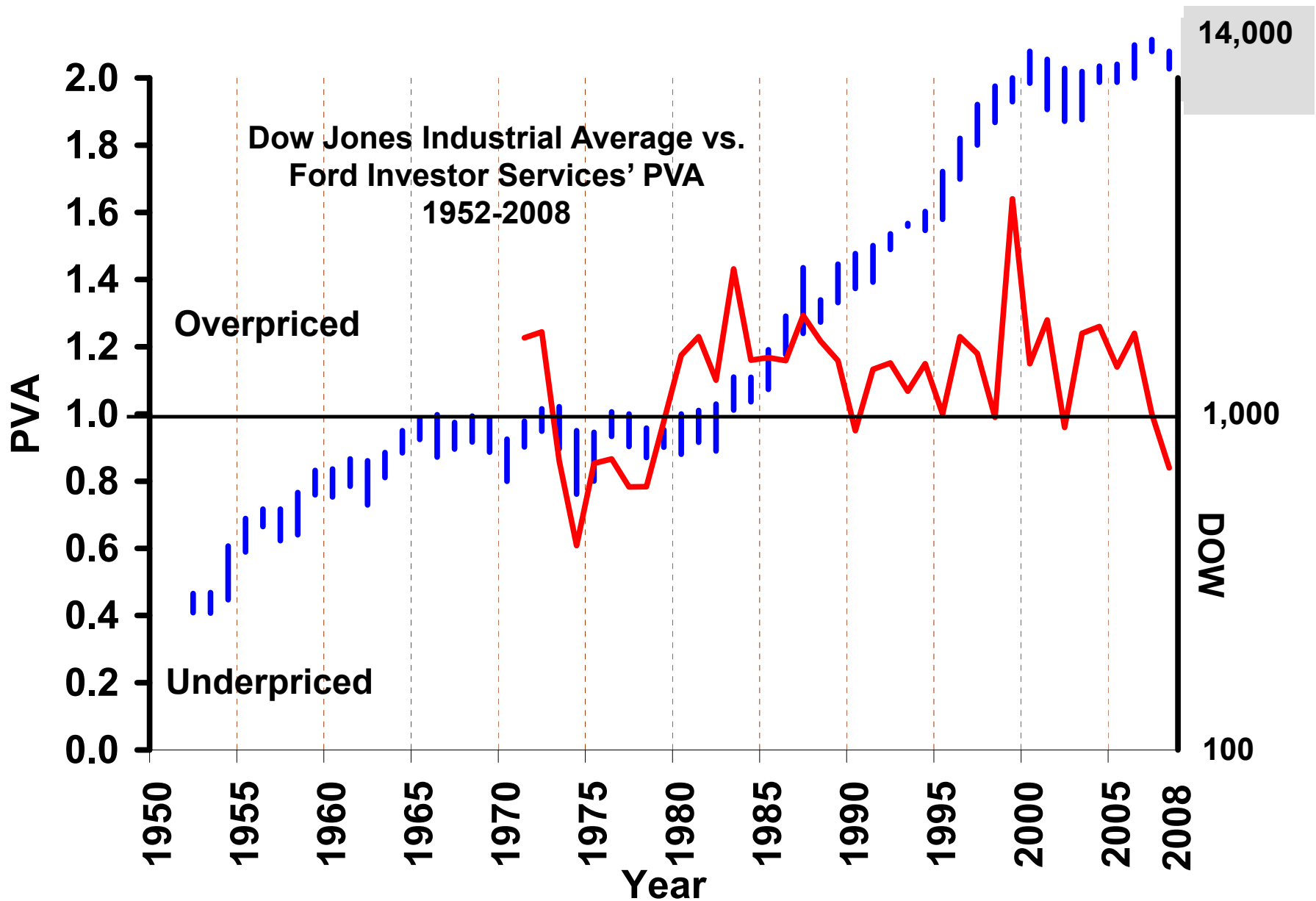
Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Used with permission



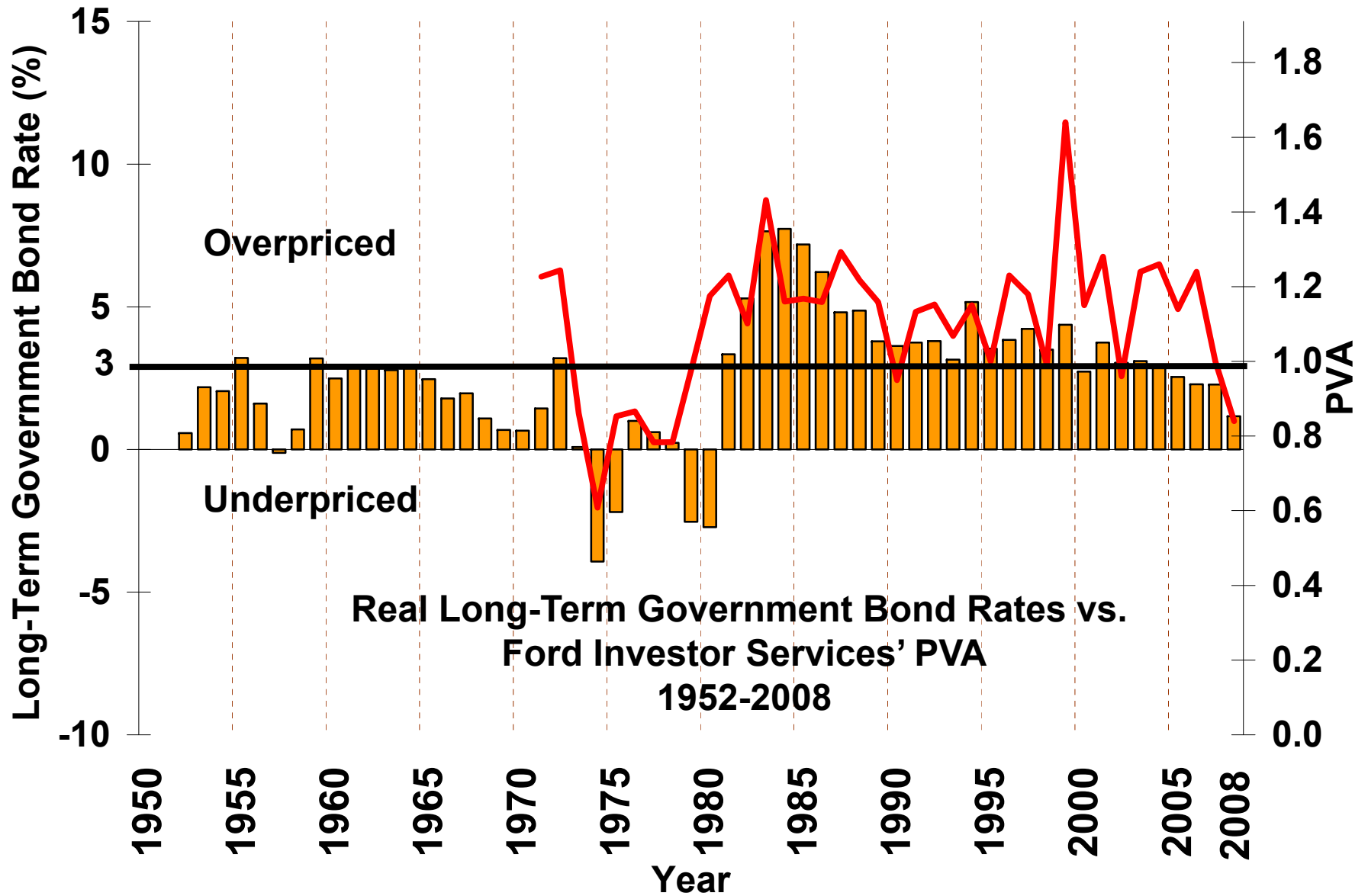
Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Source: Bloomberg; Used with permission



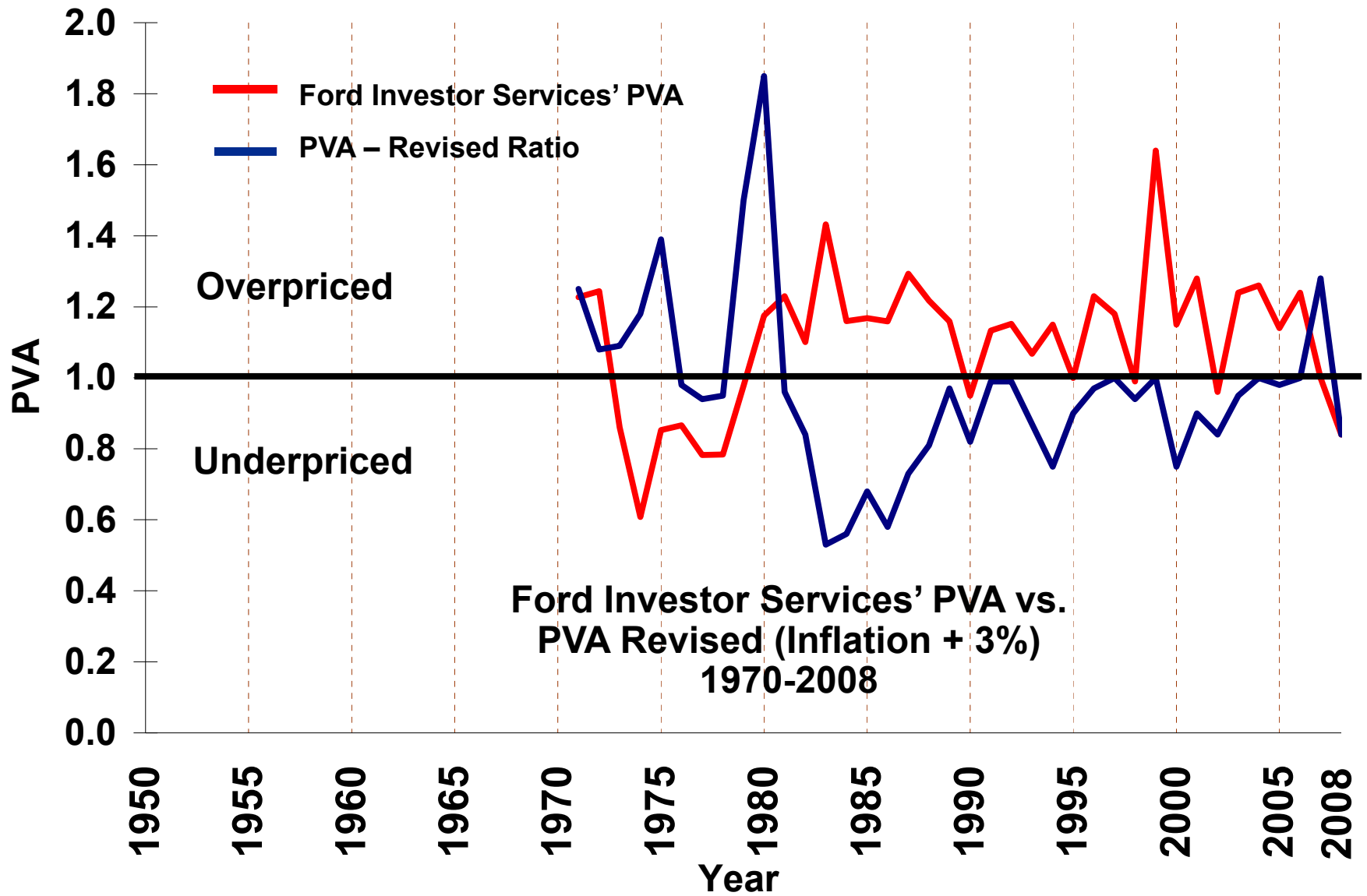
Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Source: Bloomberg; Used with permission



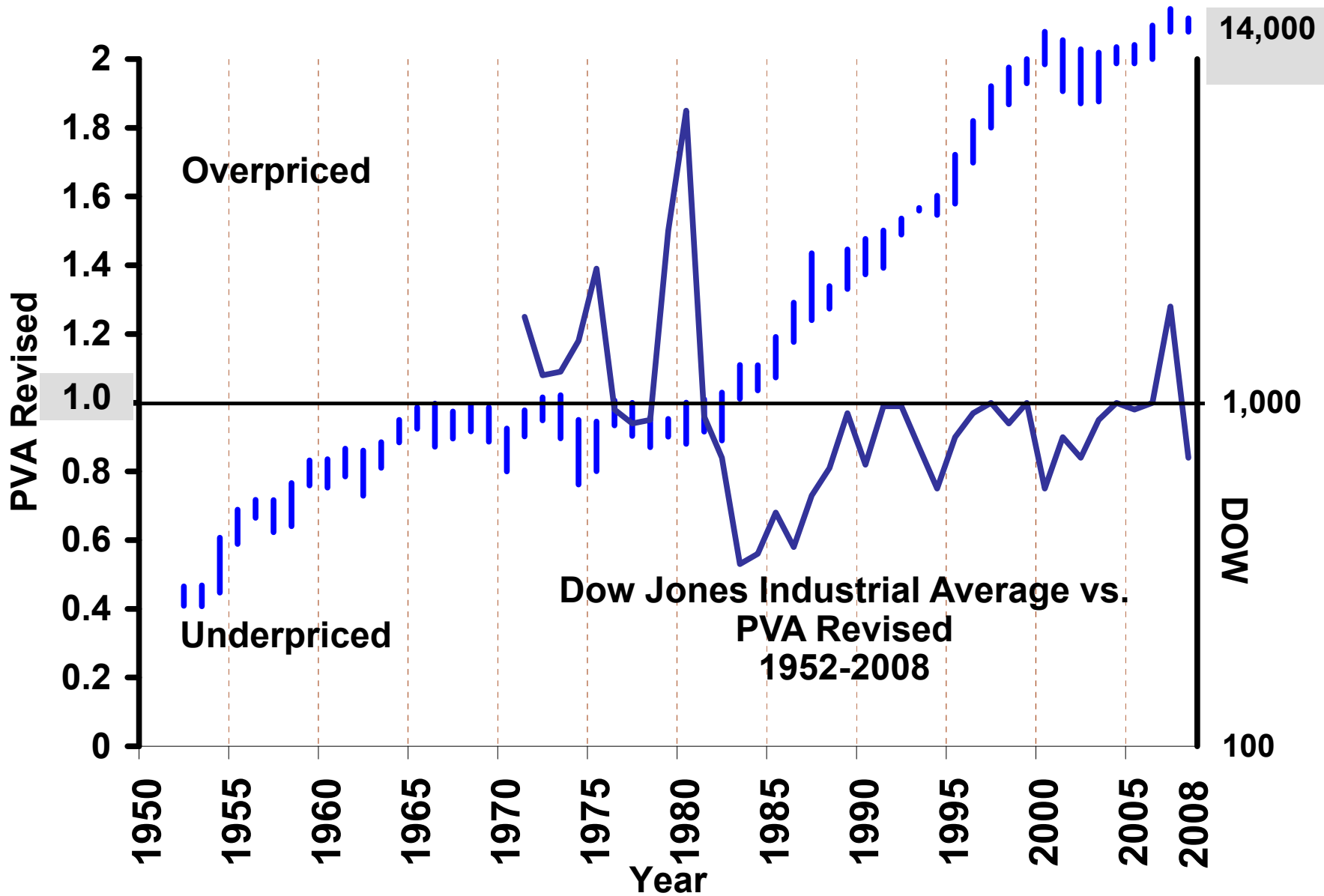
Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Used with permission



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Source: Bloomberg;



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved

Comparative Returns Domestic and International Equities

*Morgan Stanley International
Europe-Australia-Far East Index

<u>20 Years</u>	<u>Cumulative</u>	<u>Annualized</u>
S&P 500	1,420%	14.19%
EAFE*	1,962%	16.05%

<u>Year</u>	<u>S&P 500</u>	<u>EAFE*</u>
1975	37.31	37.10
1976	23.99	3.74
1977	-7.19	19.42
1978	6.39	34.30
1979	18.65	6.18
1980	32.39	24.43
1981	-5.26	-1.03
1982	21.53	-0.86
1983	22.59	24.61
1984	6.3	7.86
1985	31.8	56.72
1986	18.67	69.94
1987	5.25	24.93
1988	16.61	28.59
1989	31.69	10.80
1990	-3.10	-23.20
1991	30.47	12.50
1992	7.62	-11.85
1993	10.08	32.94
1994	1.32	8.06

Source: Bloomberg; NOTE: The S&P 500 Index is a widely recognized, unmanaged index of common stock prices. You cannot invest directly in an index .



Comparative Returns Domestic and International Equities

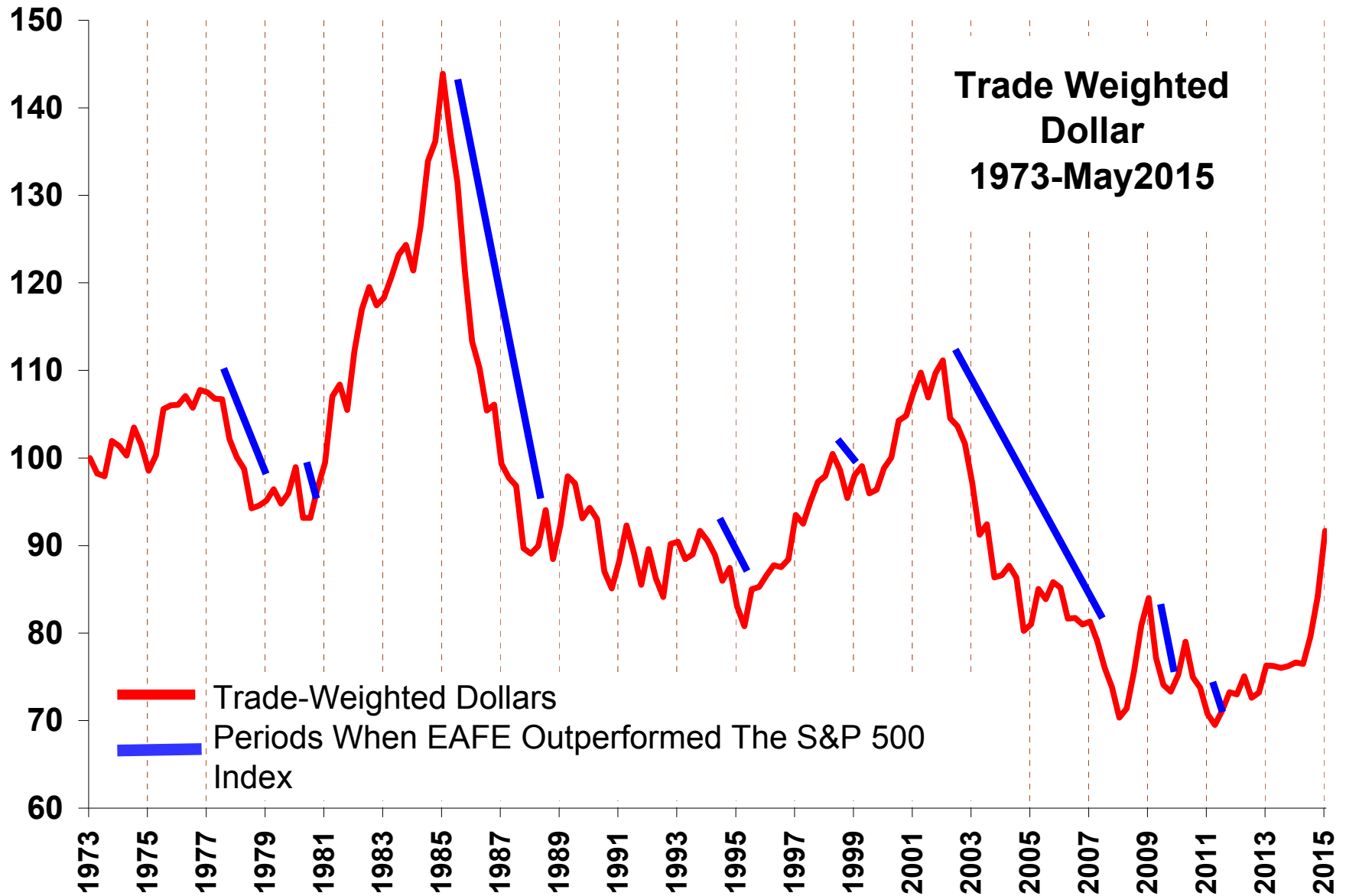
<u>39 Years</u>	<u>Cumulative</u>	<u>Annualized</u>
S&P 500	9,850%	12.19%
EAFE*	5,832%	10.75%

*Morgan Stanley International
Europe-Australia-Far East Index

<u>Year</u>	<u>S&P 500</u>	<u>EAFE*</u>
1975	37.31	37.10
1976	23.99	3.74
1977	-7.19	19.42
1978	6.39	34.30
1979	18.65	6.18
1980	32.39	24.43
1981	-5.26	-1.03
1982	21.53	-0.86
1983	22.59	24.61
1984	6.3	7.86
1985	31.8	56.72
1986	18.67	69.94
1987	5.25	24.93
1988	16.61	28.59
1989	31.69	10.80
1990	-3.10	-23.20
1991	30.47	12.50
1992	7.62	-11.85
1993	10.08	32.94
1994	1.32	8.06
1995	37.58	11.55
1996	22.96	6.36
1997	33.36	2.06
1998	28.58	20.33
1999	21.04	27.30
2000	-9.10	-13.96
2001	-11.89	-21.21
2002	-22.10	-15.66
2003	28.68	39.17
2004	10.88	20.70
2005	4.91	14.02
2006	15.79	26.86
2007	5.49	11.63
2008	-37.00	-43.06
2009	26.46	32.46
2010	15.06	8.21
2011	2.11	-11.73
2012	16.00	17.90
2013	32.39	23.29
2014	13.69	-4.48



Source: Bloomberg; NOTE: The S&P 500 Index is a widely recognized, unmanaged index of common stock prices. You cannot invest directly in an index .



Source: Bloomberg



Muhlenkamp & Company, Inc. © 2015; All Rights Reserved



Questions and Responses



Muhlenkamp & Company, Inc.
Intelligent Investment Management



**The comments made by
Muhlenkamp & Company are
opinions and are not intended to
be investment advice or a forecast
of future events.**



Muhlenkamp & Company, Inc.
Intelligent Investment Management



Muhlenkamp & Company, Inc.
Intelligent Investment Management