

MRP CAPITAL INVESTMENTS, LLC

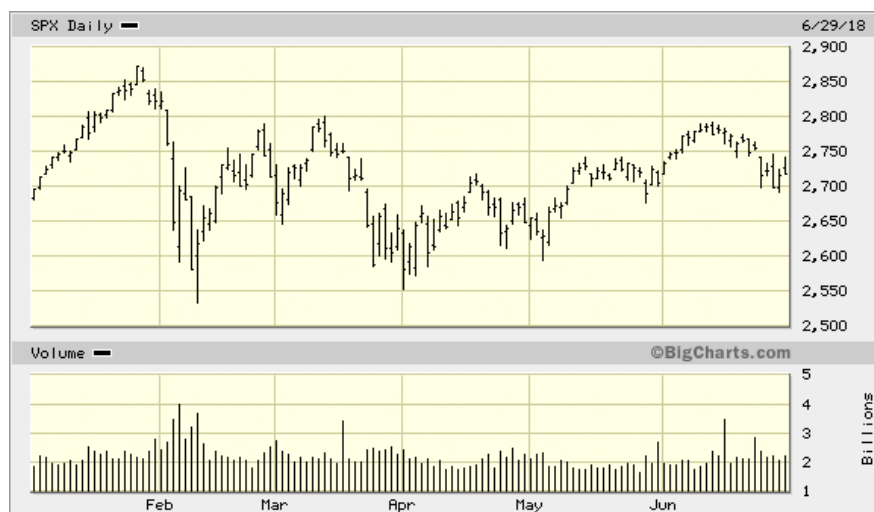
2nd Quarter 2018 Client Newsletter

Capital Market Update

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This quarter saw the S&P 500 rebound and post a price change of 2.93% for the quarter. All in all, that brings the change in the price of the market for the year to 1.67%. Not huge gains by any stretch of the imagination, but, like we've been talking about for quite some time, we should be in a grinding/sideways market until after the November elections.



S&P 500 2018 Chart Supplied by BigCharts.com



In the last quarterly newsletter, we mentioned one of the big keys for the market would be earnings. We had anticipated big earnings growth for the quarter and we got it! According to Thomson Reuters, Q1 2018 earnings growth for S&P 500 companies came in at 26.6%.

You may ask, 'Why is this important, especially if the market is just going sideways?'

The answer is; this makes the market cheaper on a P/E basis and lays the foundation for future market growth given the lower valuation of the market. Hopefully, in the back of your mind, as you see earnings figures come in at amazing levels and the market simply yawns, you'll understand that this is setting things up beautifully for the future as the market gets cheaper and cheaper and cheaper.

ON SALE!

Market Divergence

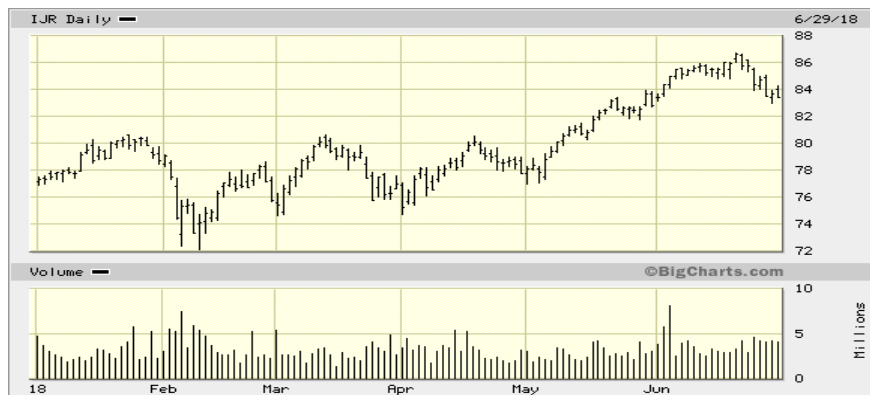
After an incredible 2017, many people have been scratching their heads wondering what is wrong with the markets? And, of course, they are focused on the S&P 500. They saw it run up huge in the beginning of January, only to watch it fall into negative territory, and now it seems to be just bouncing around going sideways. In fact, here is the chart of the S&P 500 through the end of the 2nd quarter.



S&P 500 YTD chart provided by BigCharts.com

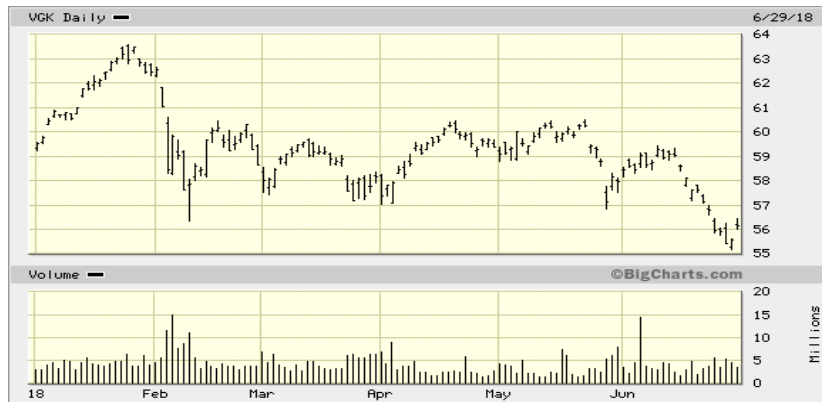
This sideways market has actually seen price appreciation of 1.67%. Which is pretty solid after such a great 2017. But what has really struck me over the year so far is the divergence of markets.

Below you will see a chart of a US-based Small Cap Index Fund. It has seen a price change of close to 8%. I believe that it has gained so much because the market thinks the tariffs and trade wars will not impact US-based small caps as much as the larger multi-national companies.



IJR YTD chart provided by BigCharts.com

Jumping to the overseas markets, you see a different picture. This is a chart of a European Index Fund. It has posted losses of about 6%.



VGX YTD chart provided by BigCharts.com

While this Chinese ETF is showing losses for the year as well. These losses total about 6% through the 2nd quarter, but the fund is down about 20% from its January high.



MCHI YTD chart provided by BigCharts.com

In fact, it is this weakness in the international markets that has caused the All-Country World Index to post negative results year to date.

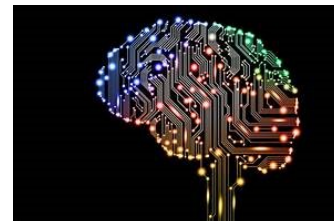
Why are these international markets down, while the U.S. markets are up? More specifically, why have they sold off so hard in the last quarter while U.S. based markets have held their own? Once again, I believe it is trade war and tariff related. The U.S. imposes a VERY low level of tariffs on goods entering our country. Meanwhile, many other countries impose some pretty steep tariffs on goods entering their countries. If this gets evened out, it would appear that it could be a boon to the U.S. economy and troubling for some international economies. Given this, it appears the markets are behaving rationally.

However, one of the most interesting occurrences is the strength of the Saudi Arabian markets. If you remember in the “Brave New World” research piece I put out last year, I noted that the importance of the Middle East in the global economy would increase dramatically and Saudi Arabia would be a leading player, . It certainly appears that I am no longer the only one who thinks that. As you can see below, the Kingdom of Saudi Arabia Index Fund is up very close to 20% for the year.



KSA YTD chart provided by BigCharts.com

Frankly, I LOVE to see things like this. To me, this shows that market participants are using their intellect while looking at fundamental data and trends in order to decipher the best places to allocate capital. I much prefer this to masses of capital rushing into each and every sector and asset class. The latter is akin to a mania, while the former is what good portfolio management is all about.



As a side note, page 8 of this report has everyone’s portfolio information on it. I believe everyone will be pleased with the performance of their accounts. Most returns were VERY good for the quarter with benchmarks being beaten and solid returns being posted.

The Grind Continues

I am a big believer that getting the most out of your investments comes down to having a good idea of what is about to happen in the markets. This doesn't mean that we try to predict every single move that market's might make and execute buy/sell decisions to try to time those moves perfectly. Rather the concept manifests itself in our long-term market outlook and our portfolio management strategy. Always keeping this long-term outlook in mind as the market's gyrate around can help us make better investment decisions by keeping us calm and under control.

A good example of this concept is when I introduced "The Grind" to all clients earlier this year. The concept behind "The Grind" is that from time to time markets go sideways. Many market technicians (otherwise known as chart readers) call this phase of the market "consolidation" and it usually occurs after a large run up in the market. The idea for these chart readers is that after a large run up, the market needs to consolidate those gains and build a base for the next leg higher. But nevertheless, during these consolidation phases or, as I call it, Grinding phases, the market goes sideways.



2 year chart of the S&P 500 provided by BigCharts.com

I really have tried to call a lot of attention to this phase, because as I mentioned just a few paragraphs ago, I think a big key to getting the most out of your investments is having an idea of what that market might do next. If we are all clued in to the concept that the market should not have any significant upside moves until after the mid-term elections in November, then we won't get mentally distraught over short-term market swings. That is, we won't think every rally is the next big move higher and, perhaps more importantly, we won't think every sell off is the beginning of the end of the world. Rather we will sit in a peaceful state of contentment knowing that as the market treads water, it is, in fact, building a base while earnings are growing. Given this, we know the future looks bright for our investment portfolios as the P/E ratio of the market looks better and better and the charts are improving too.

In fact, we felt so strongly that this was occurring that we put out as much information to clients as we felt they could stand...without being overly intrusive into their lives. To be specific, we mentioned “The Grind” in:

- A February 22nd website post titled, aptly enough, “The Grind”
- The “Capital Market Update” section of the First Quarter Newsletter
- The “Tug of War” article in the First Quarter Newsletter
- A 4/7/2018 website post titled “The Grind Continues”
- A 5/12/2018 email sent out to every client which described the concept
- A 6/29/2018 website post titled “The Grind Grinds On”

And, of course, right now, we are dedicating another entire article to the concept.

Why would we take the time to dedicate 7 client focused articles, emails, and website posts about the same topic? We want everyone to be fully aware that these rallies and sell offs are going to happen again and again until, we believe, the November elections. We feel it is VITALLY important that every client be 100% prepped and ready mentally and emotionally to withstand these markets swings.

On the other side of the equation, we are striving to take advantage of this volatility as best we can, within the parameters of your Investment Policy Statement. And we are focused on being able to absorb these market gyrations and getting ready for the market moves that could occur after the elections are over.

And, like always, markets are volatile by nature, so we are monitoring all new incoming news and data and making adjustment as necessary to our strategy and your portfolios.



Non-Financial Events occurring this quarter



June 12th the historic US-North Korea Summit took place in Singapore



April 14th a joint US/UK/French task force bombed Syria after the Assad regime used chemical weapons again



May 19th saw the Royal Wedding of Prince Harry and Meghan Markle



Patrick Reed won the Masters



The World Cup officially got underway

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