

MRP CAPITAL INVESTMENTS, LLC

1st Quarter 2013 Client Newsletter

Capital Market Update

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The S&P 500 is behaving like a freight-train, as of late.



This train registered a gain of 10.61% this quarter with the Health Care sector leading the way with its 15.22% gain. The Consumer Staples sector also posted a very nice return of 13.77%. In fact, all sectors showed positive returns. The “lagging” sector was Basic Materials and it showed a gain of 4.17%. To be quite frank, 4.17% is a really solid return, particularly in light of current interest rate levels.

There is no doubt in my mind that this generalized appreciation in the market is due to rising sentiment. The U of M Sentiment Survey is not registering an optimistic reading yet, but it is well off its lows. This could imply the market has further to run, but, regardless, we need to keep our eyes on market-related data and strive to stay ahead of this train.

Stock Market Update

On March 24th, I wrote a detailed research report with the S&P 500 as its focus. Given this, I won't be redundant and re-state those thoughts. Rather, I'll point everyone to MRP Capital Investment's website (www.mrpci.com) if they'd like to view that report in detail.

In summary, I believe the market is currently in the midst of a long-term Bull Market run which began in early 2009. During the course of this Bull Market we will see pullbacks and drawdowns, but I haven't seen anything that makes me think this Bull Market is over.

S&P 500 January—March 2013

Chart provided by BigCharts.com



Bond Market Update

With interest rates hovering around historic lows, I think the Bond Market deserves more attention than it is currently getting.

For starters, the “Bond Market” is actually a sub-set of different markets. You’ve got U.S. Government Bonds, Corporate Bonds, Municipal Bonds, Mortgage-Backed Bonds, to name a few. Inherent in all fixed-income markets is a general correlation with interest rates. The basic maxim is that as rates move higher, bond prices move lower. Therefore, if one believes rates will move higher, they need to be aware that, with all other things being equal, prices in the bond market should move lower. However, all other things are NEVER equal. Most every bond is different and, therefore, movements in rates will not impact all bonds equally.

U.S. Government Bonds are generally the most sensitive to interest rate moves. They are thought to be “risk-free” bonds as the ability of the backer of this bond (the U.S. Government) has the power to print money and, essentially, eliminate the fear of default. This makes them very dependent on current interest rates when determining their price in the open market.

Corporates Bonds open an extra layer of opportunity with the credit risk they expose investors to. In troubled times, this credit risk can be a drag on prices. However, in a recovering market a reduction in the market’s perception of this risk leads to appreciating prices. With this, corporate bonds are not as correlated to interest rates as Treasuries are and specific Corporate Bonds can still be attractive even if rates begin to rise.

Municipal bonds offer the great benefit of tax-free income in many cases. Additionally, all municipal bonds are not created equal. General Obligation bonds are backed by an entire State’s revenue stream. Revenue Bonds, however, are typically backed by revenues from specific projects. This creates additional credit risk for the Revenue Bonds. But like I mentioned above in relation to Corporate Bonds, diligent research can unearth some gems in the muni market, particularly on the Revenue Bond side.

These are just a few of the items available on the Bond Menu. In fact, there are many more choices. But as you can see from just these examples, not all bonds are subject to the same sensitivities regarding interest rates. In fact, some bond investments offer portfolios that seek to hedge their exposure to rising rates. And some fixed income securities have floating rates, which boosts the coupon payments made to investors as rates go up.

In the end, the generic use of the term “Bond Market” is too simple to capture the entirety of those markets. And not all bond investments have the same price risks when faced with rising rates. I do expect rates to rise in the future and I will certainly seek to prudently invest in the Bond Markets, while managing client’s exposure to interest rate risk.

Investment Ideas

Every client of MRP Capital Investments, LLC, has their own custom-tailored investment portfolio. Therefore, no two portfolios are the same. Nevertheless, there are macro-themes which offer prudent investment ideas which can be made across portfolios. One of those themes concerns the rise in importance of Cyberspace. With that, the rise in importance of **Cyber-security firms** should go hand in hand. I am actively investing and looking for investment opportunities within this space.



With interest rates still hovering around all-time lows and the economy showing signs of recovery, I think another interesting place to look for investments are companies that should benefit from rising interest rates. **Life Insurance companies and Money-Market mutual fund companies** have been severely hurt by these low interest rates. However if they have been able to maintain some form of profits in the midst of these cataclysmically low interest rates, then an improving economy and rising interest rates could provide a much needed boost for their operations.



Dovetailing on that, rising rates should have a negative impact on traditional bonds. Perhaps that impact will be price declines, but maybe, and more subtly, that impact could be the erosion of purchasing power. I am looking for fixed income investments that might be able to benefit from rising rates, like **Floating Rate securities**, and bond investments that have **hedged interest rate exposure**.

Of course, these aren't the only things I'm looking at...but these might be the most interesting things to talk about right now.

Non-Financial Events occurring this quarter



March Madness was unleashed this quarter.



On March 13th, a papal conclave elected a new Pope.



Boy, it has been a COLD winter.

But, never fear, The Masters is coming and should ring in Spring.



Along this lines of "Things that make you go hmmm..."

Dennis Rodman had a political meeting with North Korean tyrant, Kim Jong-Un.

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MRP CAPITAL INVESTMENTS, LLC

179 Lakeshore Shore Drive

Berkeley Lake, GA 30096

404-274-7851

www.mrpqi.com