

# MRP CAPITAL INVESTMENTS, LLC

## Understanding a Bull Market

Research Report

3/24/2013

## Overview

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**THE PURPOSE OF THIS REPORT IS TO UPDATE CLIENTS ON WHERE THE MARKETS MIGHT BE HEADED AND WHY THAT MIGHT OCCUR.**

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Given that our current market has appreciated over 100% from the lows it made in early 2009, I wanted to reach out to clients to discuss the history of previous Bull Markets and how historical precedent might impact our current market.

-After a brief introduction, I will offer some background information on previous Bull Markets.

-Then our current market will be discussed.

-Finally, I will offer some ideas on potential future market movements.



# Introduction

As I've written in the past, I believe many people have adopted fundamentally flawed definitions relative to the Capital Markets. For instance, market commentators on the major television networks seem to embrace the idea that a pull back of over 20% is a Bear Market. However, I am of the belief that Bear Markets are a mindset of pessimism that market participants seem to develop all at once. In fact, I wrote about this belief and related phenomena in August of 2012 in the "Bull vs. Bear Market" report.



It is in this vein that I would like to discuss Bull Markets. I am unsure of a standard, boiler plate definition of a Bull Market that is akin to the one mentioned above about Bear Markets. Nevertheless, people I talk with seem to be under the impression that Bull Markets are markets that go straight up with very little fluctuation. Having studied the markets for quite some time, and particularly market cycles, I can say with confidence that Bull Markets, that is secular long-term Bull Markets, do not go straight up. Rather they have lots of drawdowns and pull backs during their long-term upward trend.

Over the next few pages, I'd like to give some background information relative to previous secular Bull Markets runs. I believe that by studying the history of prior market movements, we can gather some insight into how our contemporary markets might behave. And, in turn, potentially stay a step ahead of movements within the markets. By doing this, we should have a better chance to be optimally allocated within those markets relative to each of your personal Investment Policy Statements.

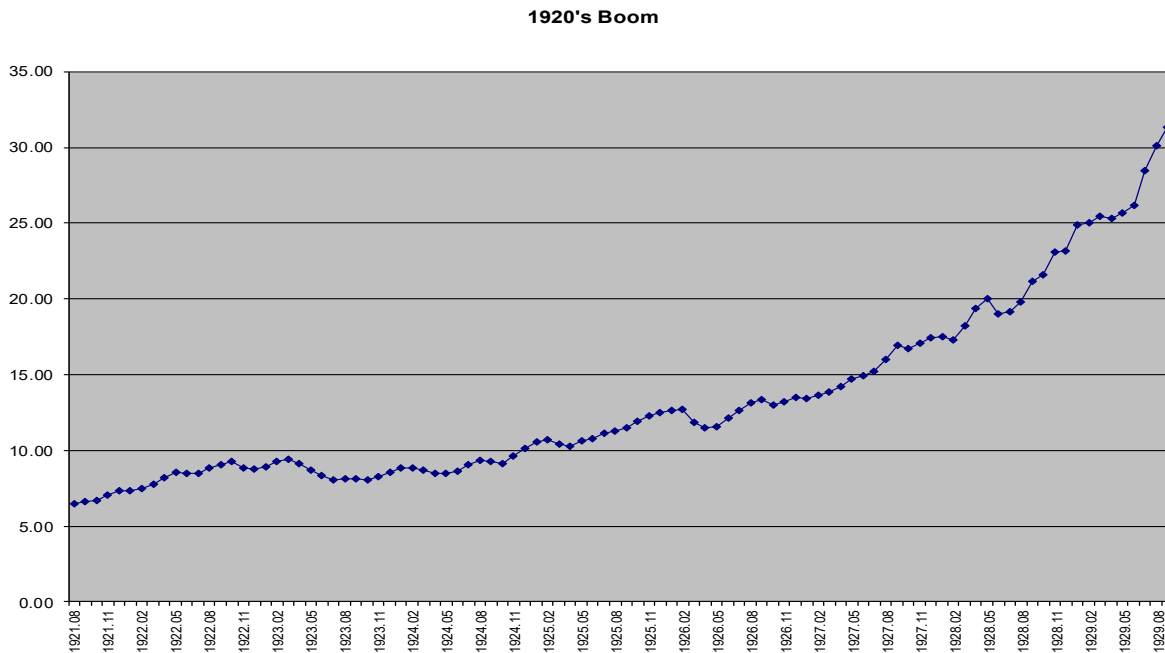


# Historical Information

First off, I think it is vital to lay the framework regarding what needs to be in place for a secular Bull Market to be launched. There is no question in my mind that the most important element to look for in determining the upside potential of a market is the valuation of that market. To be more specific, low valuations are what is needed for a Bull Market to begin.

Cutting through all the noise to get an exact determination of what signifies low enough valuations can be tricky. However if someone applies common sense to the data that can be mined relative to the market, all the pieces of the puzzle can come together quite nicely.

To lay the background regarding this process, let's take a quick look at some historical Bull Markets. People are most familiar with the Bull Market associated with the Roaring '20s. Here is how that market unfolded:



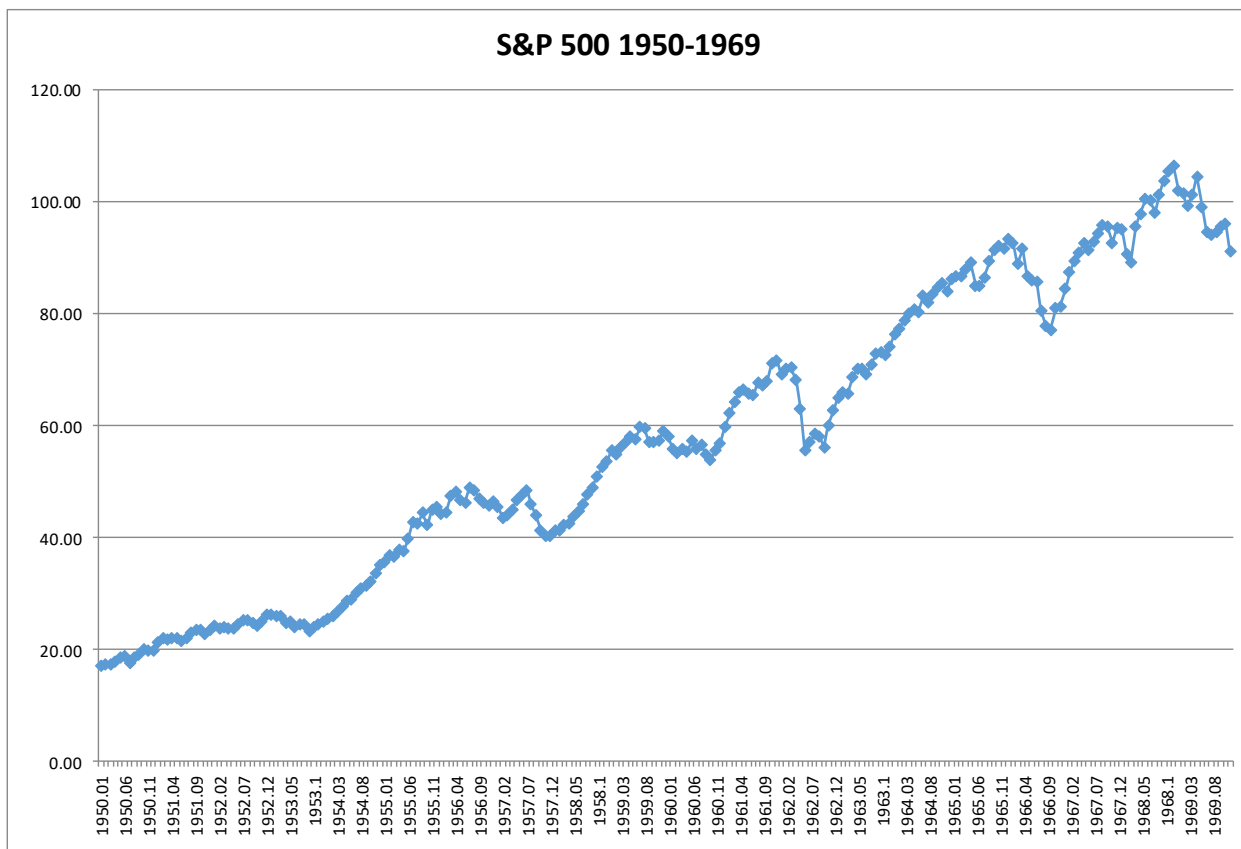
Data provided by MRP Capital Investments, LLC database

Simply looking at this market using a long-term chart of the S&P 500, the thing that jumps out is the 385% price appreciation from August 1921-September 1929. However, if you look more closely a few other notable events pop out.

First and foremost, it is clear that this historic Bull Market did not go straight up. In fact, if you take a look at the pull backs within this market you will note a near 15% pullback which took place from March 1923-October 1923. You also saw a sell off of over 9% from January through April in 1926. And finally, you saw a sharp 5% correction in May of 1928.

But in addition to the volatility within that market, it is vital to understand where the market stood right before this Bull Market began. The chart's first data point is August of 1921. At that time the 10-year U.S. Treasury's yield was 4.70%, while the earnings yield on the S&P 500 (defined as the reciprocal of the P/E ratio) was 7.14%. Stocks in this case offered more value than bonds.

The next Bull Market ran through the 1950s and well into the 1960s.

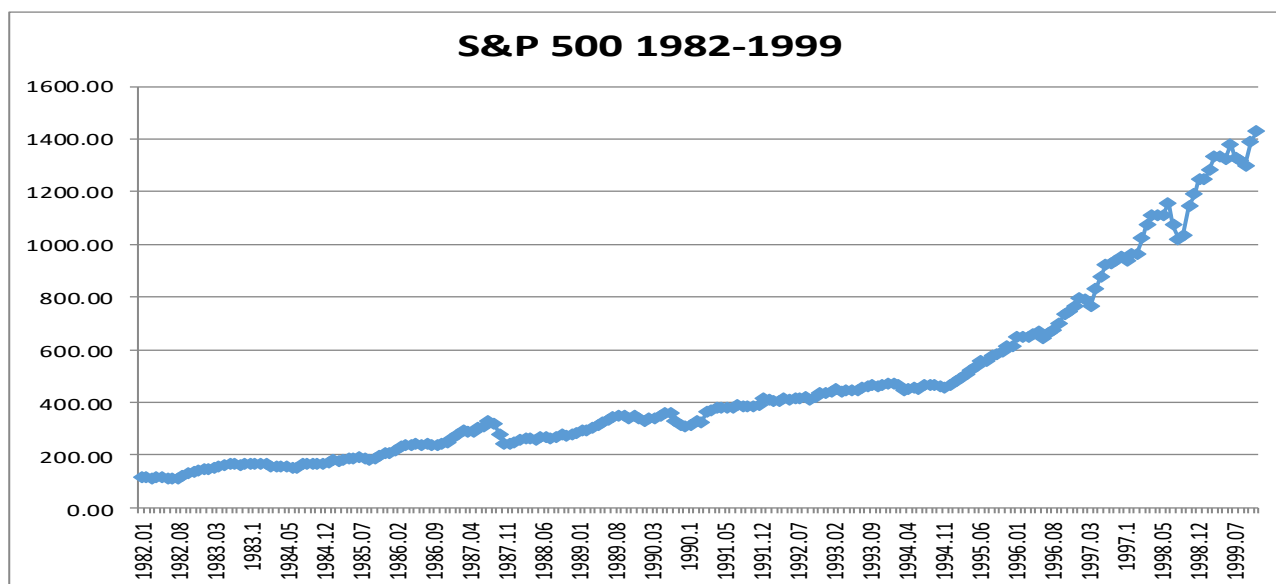


Again, you see a very impressive price change of the S&P 500; this time 485%. But looking deeper into the numbers you see quite a few sell-offs. The pull back which started in 1956 and ended in 1957 was over 17%. 1961/1962 saw a correction that exceeded 22% and the market in 1966 sold off over 17%. But the biggest pull back of that era/market was a 29% pullback that started when the market peaked in December of 1968 and bottomed in June of 1970.

Like the Bull run of the 1920's, this market did not demonstrate straight line appreciation. In fact, more volatility was displayed during this time than was shown previously. And in regards to valuations, the yield on the 10-year was 2.32% in January of 1950, while the earnings yield of the S&P 500 was 13.84%. This represented an even bigger discount for stocks. Interestingly enough, the upside move in the market was greater as well.

I don't want to belabor the point that markets don't go straight up, but we do need to also take a look at the most recent secular Bull Market which took place in the 1980s and 1990s.

Yet again, we see a tremendous rise in the price of the S&P 500. This time it registered a gain of 1,178%!!! And I'll note a near 27% pullback in 1987, an approximate 20% sell off in the early '80s, a 14.7% correction in 1990, and close to 10% pullbacks in both 1983/84 and 1998.



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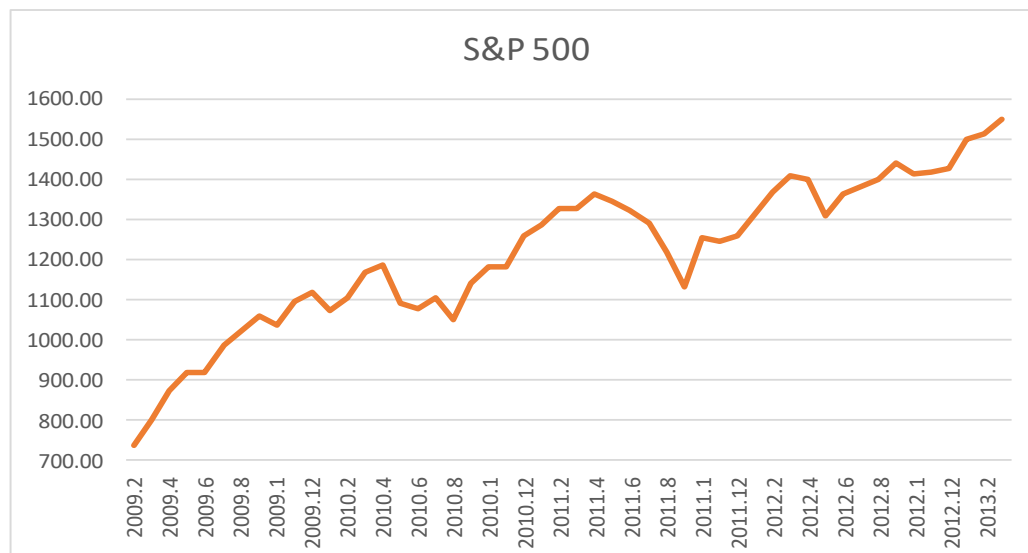
Just like before, volatility within this Bull Market was immense and valuations at the beginning were attractive. The earnings yield on the market was 12.94%, but the yield on the 10-year 10.83%. The value edge went to stocks, but remember this also kicked off one of the greatest bond Bull Markets the world has ever seen as rates moved lower and prices on most everything appreciated.

But I do want everyone to take a quick pause and think about one thing. As I type this, the S&P 500 sits at 1,564. In 1990, a year which is right smack dab in the middle of this chart and a year I'm sure we all remember, the S&P 500 was at 307. Yes, it has gone from 307 to 1,564 in a timeframe we all lived through. This fact is stunning to me.

## Current Market Update

I took the time to lay out all of this background information to reiterate the message I've been delivering since early 2009, which is that it is my belief that we are in the midst of a secular Bull Market run. However, I do feel that we might be due for a pull-back within this secular run. Given the lingering memories of the 2000-2002 Bear Market and the 2008 market sell-off, I think it is vital to communicate fairly frequently regarding this market. In the end, human beings make markets functions and, therefore, human emotions have an impact on markets. If, with these lingering memories of painful times, people aren't prepped and ready for potential market pullbacks, this could result in people missing the opportunity to "Buy on the Dips" and, even worse, mistaking these drawdowns within a secular Bull Market for the return of a Bear Market. For these reasons, I feel it is important to understand the characteristics of a typical Bull Market. Hence, the review of past Bull Markets.

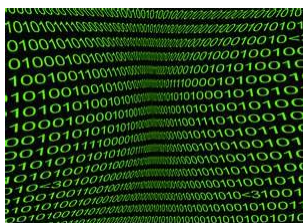
With that, here is a snapshot of our current market from February 2009 through March 24, 2013.



Data provided by MRP Capital Investments, LLC database

The precious chart shows that since February 2009:

- The S&P 500 has appreciated over 100%.
- 2010 saw a pullback of about 10%.
- 2011 saw a pullback of 17%.
- Our current market has been appreciating for about 4 years.
- As it stands now, the earnings yield on this market is 6.70% and the yield on the 10-Year is 1.93%.



## What Does All This Mean?

From my perspective, the first thing to be aware of is that we are in a secular Bull Market. And before anyone can begin to comprehend how to operate in a Bull Market, I believe reviewing historical Bull Market data is important. I wrote a very detailed report on markets, including Bull Markets in my 4/30/09 piece entitled “The Holy Grail.” In that report is a ton of detail which supports the following summation of Bull Markets.

On average, these markets last 18 years, appreciate 14.33% per year, and average 5 pullbacks of over 15%. Contrasting that with the data on our current Bull Market, I think it is fair to say that **if this Bull Market turns out to be “average” then we have another 8 years of this Bull Market left, the S&P 500 should at least double again, and we’ve got three more meaningful setbacks to deal with before our current uptrend ends.** -MRP

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S&P 500 August 1921.....	6.45
S&P 500 September 1929.....	31.30
S&P 500 January 1950.....	16.88
S&P 500 December 1968.....	106.50
S&P 500 April 1980.....	103.00
S&P 500 April 2000.....	1461.36
S&P 500 March 2009.....	666.79
S&P 500 March 2013.....	1,556.89
S&P 500 March 2021.....	??????



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