MRP CAPITAL INVESTMENTS, LLC

2nd Quarter 2013 Client Newsletter

Capital Market Update

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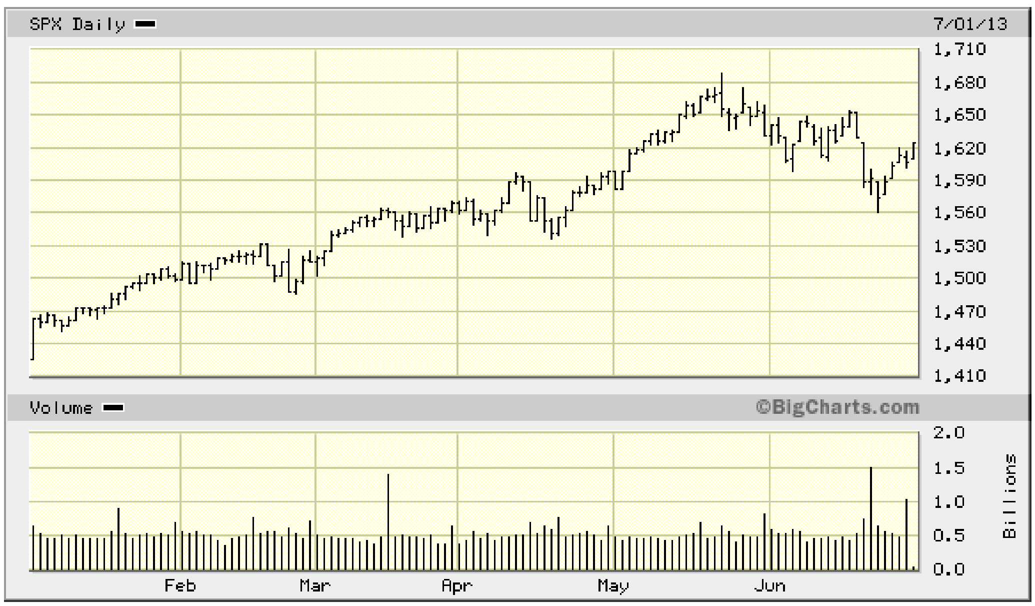
Although the S&P 500 began to show some volatility near the end of the 2nd quarter, the index still posted solid gains. For the quarter, it was up 2.91% on a total return basis. And at the end of the 2nd quarter, the posted total return number was 13.82% for the year.



S&P 500 January—June 2013

Chart provided by BigCharts.com

As I've been discussing in a lot of my research, interest rates are going higher. This fact appears to be the main cause of the market's volatility. However, it does appear that short-term rates are staying low and the rise in rates is focused more on the long-end of the curve. This has the effect of steepening the yield curve, which generally signals a healthy economy.

Time will tell on how all these moving pieces will shake out, but for now the markets are posting nice gains and the yield curve is getting steeper and, perhaps, more "normal."

Stock Market Update

I frequently post research reports on the MRP Capital Investments website (www.mrpci.com). The last one was entitled "Growth Spurt." The main point of that report was to highlight that it appears most American banks are healthy again as real estate prices have stabilized and are beginning to appreciate again (this is important because real estate is the main asset backing up the collateral for the loans that banks make). And the profits the banks are making is at record levels. Given how vital the banks are to our economy, this could be setting the stage for a long-term economic recovery.

However, it is also vital to understand that Bull Markets do not move straight-up. There are pullbacks along the path to profits and at times the pullbacks can be quite severe. In fact, historical data suggests that long-term secular Bull Markets, on average, endure 5 pullbacks of over 10%. Thus far, our current Bull Market, which began in 2009, has only had two such pullbacks.

Given this historical precedent, **we need to be prepared to withstand market volatility both mentally and emotionally**. To aid in this preparation, portfolios need to be properly aligned for each and every one of our customized investment objectives. Properly aligned portfolios help reduce investor stress and anxiety when the markets gets choppy, even if this choppiness is in the middle of a secular Bull run.

Bond Market Update

In the last newsletter, I mentioned that I thought the bond markets should be getting more attention than they were getting. Well, right now they are getting a lot of attention. Interest rates are moving higher, as highlighted by the 10-Year U.S. Treasury's move to 2.52% from 1.87% in the 2nd quarter alone.

Two things are of note here:

1) My experience with bond moves is that they happen fairly quickly. I remember about 10 years ago when rates moved higher after the 2000-2002 recession; quick, nasty, fast. Similar things happened in 2006-2007 when Bernanke popped the housing bubble. I don't expect this move higher in rates to be any different.

If the same holds true this time, it is good news/bad news situation. The bad news is that rates moved higher quickly and the daily mark-to-market prices of bonds showed paper losses. This is always unsettling. But the good news is that these moves in bond prices will be over and done with quickly and prices will stabilize.

2) Interest rates are still VERY low by historical standards. I called these last few years the era of "free" money for people able to borrow. Now, technically this money wasn't free...but you can see the point I was getting at. Moving forward borrowing money will still be cheap, but just not "free." This is still good for consumers and businesses, but even better for the lenders due to the movement in rates being focused on the longer end of the curve. This steepens the yield curve and makes lending more profitable. Frankly, I think this will provide a big boost to the economy and markets.

Here are some interesting statistics taken from the U.S. Treasury website:

	3 month T-Bill Yield	**10 Year Treasury Yield**
July 1, 1996	5.27%	6.74%
July 1, 2013	0.04%	2.52%

As you can see, rates are still very low and the curve fairly steep.

Investment Ideas

In the last newsletter, I discussed three main investment ideas that I was looking at for most clients; cyber-security firms, finance companies that would benefit from rising rates, and fixed income investments that hedge against and/or benefit from rising rates. I still like/love those ideas, but I've got a few more I'd like to mention this time.

With interest rates rising in the U.S., I believe this will have an impact on the U.S. Dollar. In fact, I think we might be entering an era of a **strong U.S. Dollar** relative to other currencies. And I believe this era might last for a good while.

Taking this idea a step further, leads to the conclusion that **commodity prices will be weak** if stated in dollar terms. This is logically intuitive; all things being equal the more the U.S. Dollar is worth relative to other currencies, the more "stuff" you can buy with it. Since commodities are by definition "stuff", you'll be able to buy more of them with a stable set of dollars.

And I'll close this section with a re-iteration of the idea that I believe that interest rates are moving higher and that the focus for the higher interest rate movements are locked in on the long-end of the yield curve. This makes **businesses that "play the spread"** very likely to see a rise in margins.

Non-Financial Events occurring this quarter

Adam Scott won The Masters

Margaret Thatcher passed away

Fanatics set off bombs at the Boston Marathon

The Miami Heat won the NBA Championship

And the Chicago Blackhawks won the Stanley Cup

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MRP CAPITAL INVESTMENTS, LLC

179 Lakeshore Shore Drive

Berkeley Lake, GA 30096

404-274-7851

www.mrpci.com