MRP CAPITAL INVESTMENTS, LLC

Growth Spurt

Research Report 5/29//2013

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Introduction

I put this picture in a newsletter in mid-2009.

The Rescue Plan

A client actually sent it to me and I thought it was so appropriate, I had to send it out to all clients. You see, the actions depicted in the cartoon precisely identified "The Rescue Plan" instituted by the Feds. And it was at that time, that I realized how important the banks are to our economy.

Now, 4 years later, the banks have reported their largest profits EVER!! There is no question that the path to these profits was paved by bailouts, low interest rates, and extraordinarily accommodative monetary policy. Furthermore, I believe the actions taken by the Feds over the last several years were solely aimed at savings the banks. And now that the banks are saved, as evidenced by the massive profits and rising real estate prices (the main collateral for bank assets), the Feds will begin to "normalize" the business operating environment.

I believe this process of normalization will take the markets to amazing new highs.

Slow Motion Markets

Before I get started on detailing my thoughts for the market's future, I'd like to rewind. The thing I've found most fascinating over my 15+ years dealing professionally with the markets is how SLOWLY things move. I think of this as a slow motion train wreck, from time to time.

For instance in a 2005 research report entitled "Crossroads/Inflection Point", I wrote this…

The place we now find ourselves at in the global economy is the crossroads/inflection point concerning U.S. dominance in the world economy and the potential for emerging markets and international economies to begin making their play for international supremacy.

If the international economies do not start shining, then the global economy is in big trouble…

If it doesn't happen, the US economy will buckle under the continuing pressure applied to it by the other nations of the world and the global economy will collapse.

As we all know, this economy did collapse and need to be bailed out. But it took a long, long time to actually collapse, over 3 years. But you could see it coming, if you knew what to watch for.

Additionally, I wrote the following in early 2009 in a report entitled "Transition to the Bull";

If it holds true again that markets bottom when the mood surrounding the markets are low, then we are pretty darn close to the bottom as the mood surrounding this market certainly appears to be very poor.

From then until now, about 4 years, the S&P 500 has appreciated over 100%. Again, a slow motion, long-term move.

The point of mentioning those things was to illustrate how much patience is needed to see an idea come to fruition in the market. **I am very convinced that most people can not comprehend how long it takes and they do not have the patience or the confidence in their convictions to tolerate the day-to-day market volatility and uncertainty to see their investment ideas through to completion.**

What's Moving Now?

Concerning our current market, the thing that seems to be the most obvious to me is that rates are going up. As mentioned earlier in this report, bank earnings have hit an all-time high. And if you agree with me that these bailouts and all the easy monetary policy was used to save the banks, then it is easy to see that there is no more need to keep rates as low as they are.

In fact, I will make the assertion that higher long-term rates will actually boost the economy. I believe this because if short-term rates stay fairly low while long-term rates begin to march toward non-manipulated market rates, the yield curve will steepen. The steeper the yield curve, the more profitable lending will be for the banks. The more profit in lending, the more lending will be done. The more lending, the faster the economy will grow.

I've heard the argument that the reason lending hasn't increased already has nothing to do with banks willingness to lend, rather it has to do with the low demand for debt. I see their point, but I believe the people making this argument miss the bigger picture and how all the pieces of the puzzle fit together. I'll agree that loan demand may not be extremely high. But I'll argue that had more to do with uncertainty regarding taxes, fiscal policy, and health care issues rather than the normal determinates of loan demand. Now that a lot of these issues are being resolved, we are seeing loan demand pick up. Add in increased bank incentive to make loans through a steeper yield curve to this increasing certainty and loan demand and, BOOM, this thing will take off.

<u>Companies Taking Advantage of Low Rates…</u>

Apple borrows $17 billion;

Pfizer borrows $4 billion;

Microsoft borrows $1.95 billion;

Nike borrows $1 billion;

Intel borrows $6 billion.

Source: Bloomberg

What Will Move Next?

Taking into account that more loans being made will make money more available leads us to the inevitable conclusion that asset prices will appreciate. This is basic economics...more money chasing a stable set of goods equals higher prices.

This appreciation in assets will solve a lot of problems. For instance, rising prices means higher profits. Higher profits means higher taxes. Higher taxes helps fix budget issues and, therefore, debt issues. In fact, a virtuous snow-ball starts.

Now...at some points, reflexivity kicks in. For details on reflexivity, please check out my 5/13/2013 research report. When this happens, asset prices will appreciate beyond what is logical and we need to begin to de-risk portfolios and take cover. However, this will be in the distant future. In fact, here is a quote that appeared in the Wall Street Journal on March 30, 1999. It was from business man/parachute maker, Joe Keller,

"The parachutes I make are reliable...and now I feel the stock market is the same. I don't think of it anymore as risk, or myself as a risk taker for investing."

This quote exemplifies that type of mind-set that takes over a market during a reflexive Bull Market run, which in turn signifies a market top. But good news, I currently find very little evidence of this type of mood over-taking our current market. This tells me we potentially have plenty of upside left.

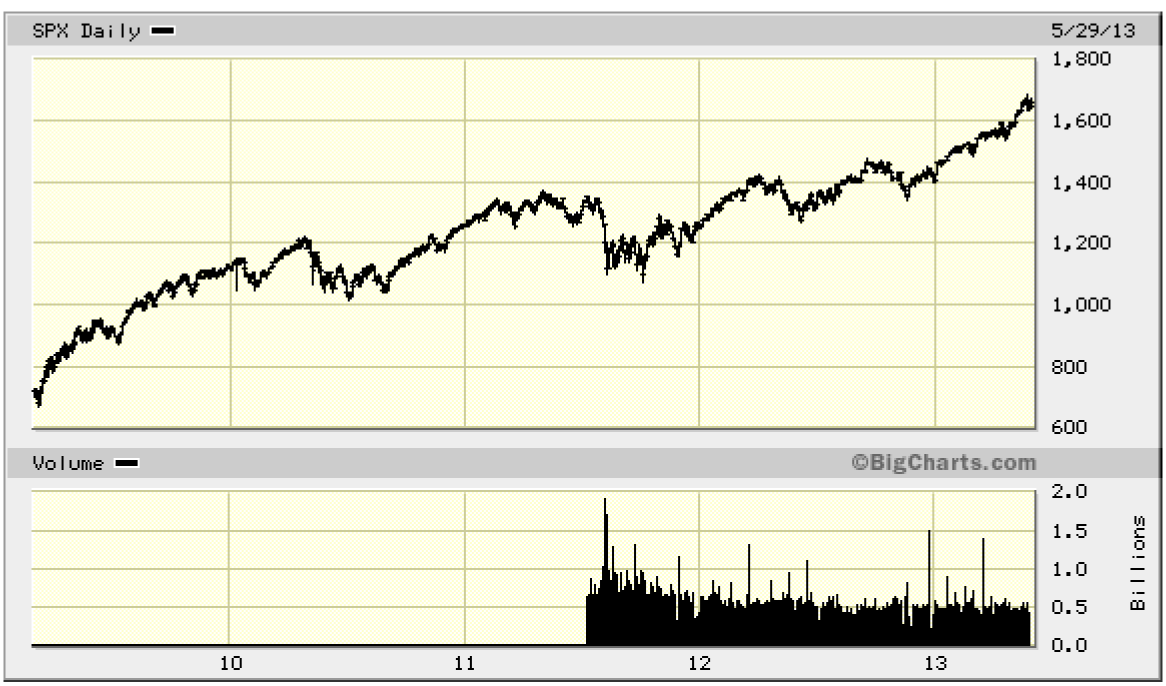
But like I keep mentioning in my reports, Bull Market don't move straight up. There will be moments of volatility, at times extreme volatility (see "Understanding a Bull Market 3/24/2013). Be mentally prepared to deal with these pullbacks and have your portfolio ready to absorb, and potentially profit from, these moves. All while keeping your eye on the long-term trends.

In fact, my work suggests that true Bull Markets are long-term in nature and show massive price appreciation. However, during the course of this long-term run-up in prices there will be multiple significant pullbacks. My work suggests 5 pullbacks occur, on average, of over 10%! For the record, so far in this Bull Market (which began in March of 2009) we've only seen 2 such pullbacks. So when I hear comments that a 5% pullback in the markets is just a matter of time (http://www.cnbc.com/id/100769970) I say, "Of course!!! That is simply the way market's move."

If you can keep your head about you, when all those around you are loosing theirs…;

Yours is the earth and everything that's in it. And which is more you'll be a man, my son!

-Rudyard Kipling



S&P 500 March 1, 2099 through June 29, 2013

-MRP

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