

MRP CAPITAL INVESTMENTS, LLC

3rd Quarter 2013 Client Newsletter

Capital Market Update

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What we have been seeing since early 2009 is the precise recipe for a Bull Market; market participants talking about all the risks and problems while stocks rally and rally. The phrase used for this is that the market has been climbing the Wall of Worry. And through the end of the 3rd quarter, the S&P 500 has posted a gain of 19.79% on a total return basis during this climb.



S&P 500 January—September 2013

Chart provided by BigCharts.com

Unfortunately, it has become standard operating procedure for the U.S. Government to create the issues that form the foundation for this Wall of Worry. And, of course, as I write this, they are doing it again. This time it is the Budget Debate and issues surrounding raising the Debt Ceiling and Health Care Reform. This should drive market volatility higher, which means we should see stocks experience drawdowns. But by keeping asset allocations in-line and cash at the ready, this could prove to be an opportunity for savvy investors.

Time will tell.

The Transformation of the Market

Starting in late 2007, it felt like the market became a “Risk On/Risk Off” environment. What I mean by that is all investments within specific asset classes seemed to move in lock step with each other; bad news sent seemingly every stock lower and good news pushed all stocks higher. But now, I get the sense that the fundamentals behind specific companies are driving their stock prices. The market may experience a shock of bad news and the broad market might sell off. But rather than market professionals selling everything, certain investments might be holding their own and/or gaining because they bring something to the table that the broad market does not.

For instance, take a look at these charts.

As seen on the front page of this newsletter, here is the price action in the S&P 500 this year; showing a gain of 17.90% solely on a price basis.



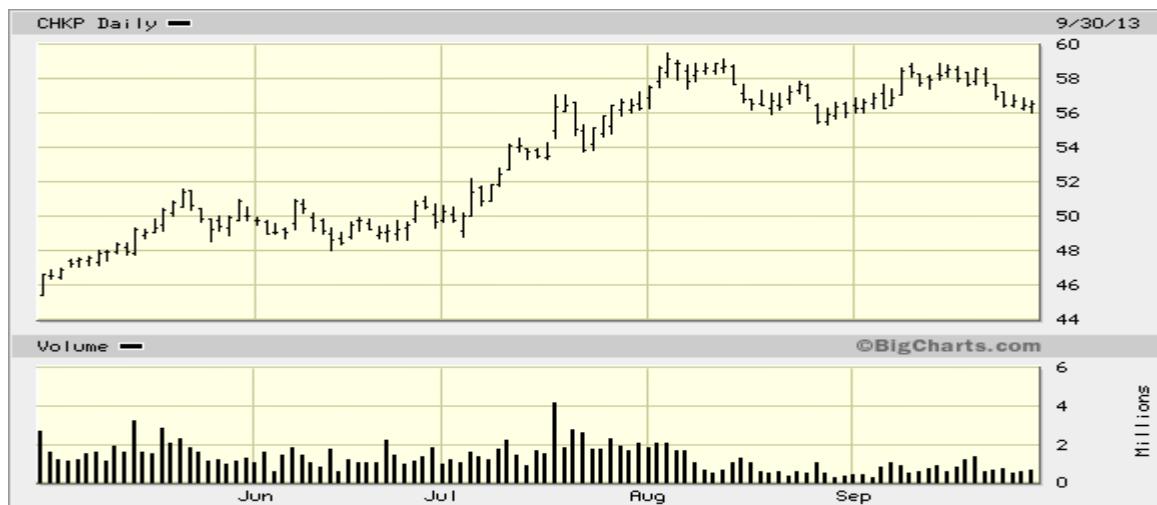
But here is AIG, the controversial insurance company; up over 40% for the year. See the April time frame? The market went nowhere, while AIG surged.



And since May the S&P 500 is up about 5%.



But Checkpoint Systems, an cyber-security firm, is up over 20% during that time frame. The bulk of this outperformance is built on resiliency of Checkpoint during the June market pullback.



I could go on and on and provide numerous examples of this, but I think you can see that company level fundamentals are beginning to matter again. To me, this is a very important occurrence and points to a more normal and healthy stock market; a “stock pickers” market, if you will.

Investment Ideas

In the past, I've mentioned taking an interest in a few investment themes. I still am in love with the cyber-security firms theme. I see this as a non-stop growth business with the smaller players with good products being acquired by the Big Boys who need growth and a new product to push.

Three other ideas I've previously mentioned have already proven very profitable and I think the trend has more juice in it, but the "low hanging fruit" has been picked. Patience will be required to see further dramatic gains. Those ideas were:

1) Finance companies that would benefit from rising rates (see the previous AIG chart);

2) Businesses that "play the spread"

3) Fixed income investments that hedge against and/or benefit from rising rates.
Here's a chart regarding the yield on a 10-year Treasury.



Perhaps the big short-term move is over, but longer-term rates seemingly have to go up. However, patience is required if you continue to play this theme.

My thoughts on a strong Dollar and weak commodity prices were golden until this latest government debacle came to fruition. But if rates do rise over time, I see this trend returning.

I have found an investment that I am extremely excited about. In fact, I haven't been this excited about an investment in years...maybe my entire 15+year career. I will not mention the name here, but clients will see it in their portfolio...and they may scratching their head regarding it...but over time I am confident big profits will be made. But, like most good things, it will take time to come into full bloom.

Non-Financial Events occurring this quarter



August 21st, a Sarin Gas bomb was used by the Syrians during their Civil War.



Jason Dufner won the PGA Championship



The Atlanta Braves won the NL East.



Miley Cyrus gave a performance that seems to prove that she's...uh, hmmmm, well,...lost her mind!

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