MRP CAPITAL INVESTMENTS, LLC

3rd Quarter 2014 Client Newsletter

Capital Market Update

Inside this report:

The 3rd quarter was a very choppy quarter. Two of the three months registered negative returns for the S&P 500. But the market did eek out a gain for the entire quarter. In fact, the price return of the S&P 500 was 0.61% for the quarter. Which puts the market's return for the year at 6.69%.

S&P 500 YTD Chart Supplied by BigCharts.com

Overall, it is hard to complain about a market that is generating such nice returns. But people's sense of comfort with the market is still below average. At least a peak at the Consumer Sentiment indicator would imply that, as does the general feedback I get when talking with market participants. But, to me, that is okay. Bull Markets generally don't end until everyone loves the market. Given this, I think this train just might keep on rolling!

Stock Picking

I know the media focuses a lot on the economy and macro events that impact the markets. But I've been talking for awhile now about the importance of investment selection and stock picking in regards to generating solid returns in our current market. I'd like to take the time to talk about a few nice picks we've had this year.

This first one is owned by each and every client. It is a tech company that I stumbled onto in a unique way. It all started when a client of mine called me up to get together to talk about his family's current situation. Regarding his occupation, this particular client is in the technology space. His career pattern seems to repeat itself in something akin to this: begin to work for a hot up and coming tech company, get equity in the firm, firm gets bought out by a bigger firm, his equity component spikes, he cashes in his chips, then seeks out the next hot tech company to go work for and get an equity stake in. I don't want to get too specific, so let's just say its been a good ride for him and his family.

So...anyway...I knew when he called me up that he was on to another firm. During our round of golf, uh, I mean meeting, he mentioned that he was talking with Splunk (SPLK). He could tell by the look on my face that I had no idea who Splunk was. Of course, he teased me about being some hot shot money manager that had never heard of one of the world's hottest tech companies. Guilty as charged! But, despite this, I listened intently to what he had to say. Splunk sounded very interesting...big data player.

After the round, I mean meeting, I dug pretty deep into Splunk. Nice revenue progression, pristine balance sheet, earnings were light, but free cash flow was spiking. And I'm HUGE into free cash flow. If you've read my piece "Some Thoughts on Valuation", you'll know that I believe free cash flow generation and growth is a precursor to solid earnings. Also, I LOVED the chart pattern of Splunk. I can't really describe the pattern in words very well, but it is a pattern I recognize easily and many other stocks that I've seen demonstrate that pattern are bottoming out and getting ready to pop. In fact here it was it looked like the day I began buying for everyone…

What I love about a chart like that is the fact that you can buy the stock well below a fairly recent high and the steep selling appears to have ended. To me, that means everyone who wanted to bail on the stock has had time to get out and now the value buyers are accumulating it.

Well, as luck would have it the next night they announced earnings and beat the forecasted number. The stock jumped from the $46 price I bought shares for to $60, which is essentially were it sits now. [To be precise, it is trading at $60.13 at 3:10 pm on Monday October 6th, 2014.] That represents more than a 30% gain in just a little over a month, as compared to the market which has fallen 1.7% during that same time frame. Obviously, making investments like this help any portfolios overall return.

Some other stocks trades that clients have participated in are as follows:

Covidien (COV)...takeover from Medtronic announced in June.

Kinder Morgan (KMP)...announced a corporate restructuring in August.

After hearing about what Kinder Morgan was doing, I wondered if more oil pipeliners would do something similar. So, I began selling the KMP shares, booking the profit, and rotating into other pipeliners. TC Pipelines was my favorite of the bunch (TCP).

Interestingly enough, I finished that move just before that September spike in TCP.

And another widely held stock that has seen some good action lately is EMC. I firmly believe the space that EMC operates in is a long-term growth story, but now it also seems some shareholder activists want EMC to shake things up...and the stock has been responding.

Of course, not every investment goes as well as these do. We all know that past performance is no guarantee of future success and that all investments bring about the potential for profit and loss. The point of showing you these investments is simply to highlight the importance of being in the right place at the right time. Whether it is skill or by luck, only God knows. But if it is luck, I'm on a 16 year roll!!!

Dangerous Precedent

I don't want to sound alarm bells or freak anyone out, but I really do want to take the time to mention something dangerous that I think is creeping into the market. And the "thing" that is slowly making its way into all the market participants psyche is a lack of understanding about the downside risk in the market.

The media has been talking about our latest round of volatility as a "big selloff" and a "major market drop." Well, I'm here to remind us all that these 3 to 4% pullbacks are not major sell offs at all. They are minor blips that occur many times over within healthy and normal bull markets.

However if we all begin to believe that a 3% pullback is a big deal, then we will not be ready for the 10%+ pullbacks that also occur within normal and healthy bull markets. Our minds will have become used to standing tall and firm in the face of small market blips and all the while think we are showing courage, but then when the market drops 10% things could take an ugly turn. Panic could set it.   You see, we are being trained that 3% is a big deal. It is not! We need to be mentally and emotionally ready to withstand 10%+ pullbacks.

I've written about this many times over in an effort to prep everyone for the day when this happens. Why? Because if we have appropriate allocations in our portfolios and we are mentally and emotionally ready for these pullbacks, then we can make money while everyone else panics!

During panics, prices usually go way past rational levels. If we have solid allocations, we should have cash at the ready and/or assets we can quickly liquidate to raise cash. As people panic sell, which is generally why markets and prices fall significantly, we can be standing at the ready to buy these assets at fire sale prices. When markets normalize and the panic subsides, prices generally bounce. This can mean profits to our portfolios.

That's the idea behind me constantly reminding my friends and clients about the numerous significant pullbacks that occur within healthy and normal bull market runs. And that idea is to have us all remain cool, calm, and collected and take advantage of falling prices, if this type of pullback materializes.

If you can keep your head when all about you
Are losing theirs...

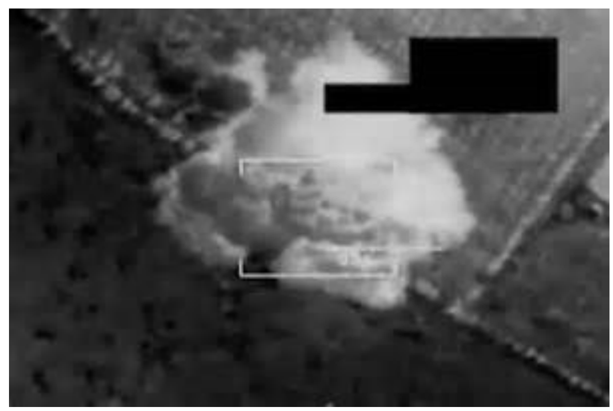
Yours is the Earth and everything that's in it.

Rudyard Kipling

Non-Financial Events occurring this quarter

Malaysian Airliner shot down over Ukraine

Ground fighting takes place in Gaza



U.S. begins bombing of terrorists in Iraq and Syria

Robin Williams and Joan Rivers passed away

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