MRP CAPITAL INVESTMENTS, LLC

1st Quarter 2015 Client Newsletter

Capital Market Update

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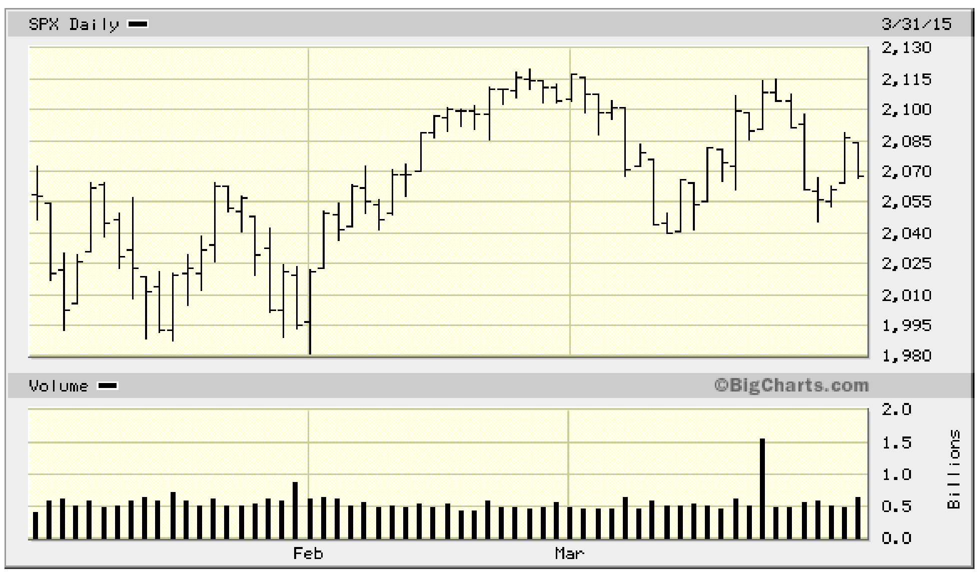
WHOA, Nellie!!! The first quarter saw a tremendous amount of volatility. In January and March, the S&P 500 went down by a good clip. However, in February the market shot up like a rocket. But by the end of the quarter, the market went nowhere. On a price basis, the S&P 500 was up 0.44%.



S&P 500 YTD Chart Supplied by BigCharts.com

Moving forward, I'd expect more of the same as we are seeing a convergence of market influences (which I will discuss throughout this newsletter). The most important things to understand during times like this are your investment goals and objectives. If you are looking for growth, we will strive to use the dips to make profitable investments. If you are primarily looking for capital preservation, selling into the rallies makes sense.

During times of high volatility, having an iron clad Investment Policy Statement can be the key to goal achievement and peace of mind.

Market Influences

As I mentioned in the opening section of this newsletter, there are a lot of market influences butting heads right now. I think the ones that warrant discussion are:

-Interest Rate concerns

-Earnings Levels

-Consumer Sentiment

-Economic Position

-Geo-Political Issues

-Interest Rate Concerns

I've been proactive in my discussions with everyone about the market's concern over interest rates. In fact, I've posted online (www.mrpci.com) and sent every client a copy of my report "Don't Fight the Fed." In that report, I discuss how historically markets have run to the upside right up until the moment that interest rates are hiked by the Fed.

This is precisely what seems to be occurring within our current market. Right before the Fed makes an official statement, we see downside volatility in the markets. They announce they are keeping rates where they are and then the market rallies. This is not surprising as the market is simply doing what it always seems to do.

What is concerning is that, historically, after rates are hiked the market enters into a grinding phase where gains are hard to come by. Now, this isn't the same as a market that collapses. Not at all. Rather there are sell-offs and rallies, but the stunning gains that preceded the rate hikes take a long-time to begin again. Profits can be made, but just not as easily.

This is why people are concerned about the timing of Fed rate hikes.

-Earnings Levels

Seeing why the market is concerned about rising rates might lead an investor to be a little cautious during the post-Fed meeting rallies. But the one thing that is really causing me a high anxiety is the current level of earnings in relation to “trend” or “potential” earnings. I’ve shared this chart many, many times…and I apologize for sharing it again. But I feel it brings to light exactly why I have concerns about earnings.

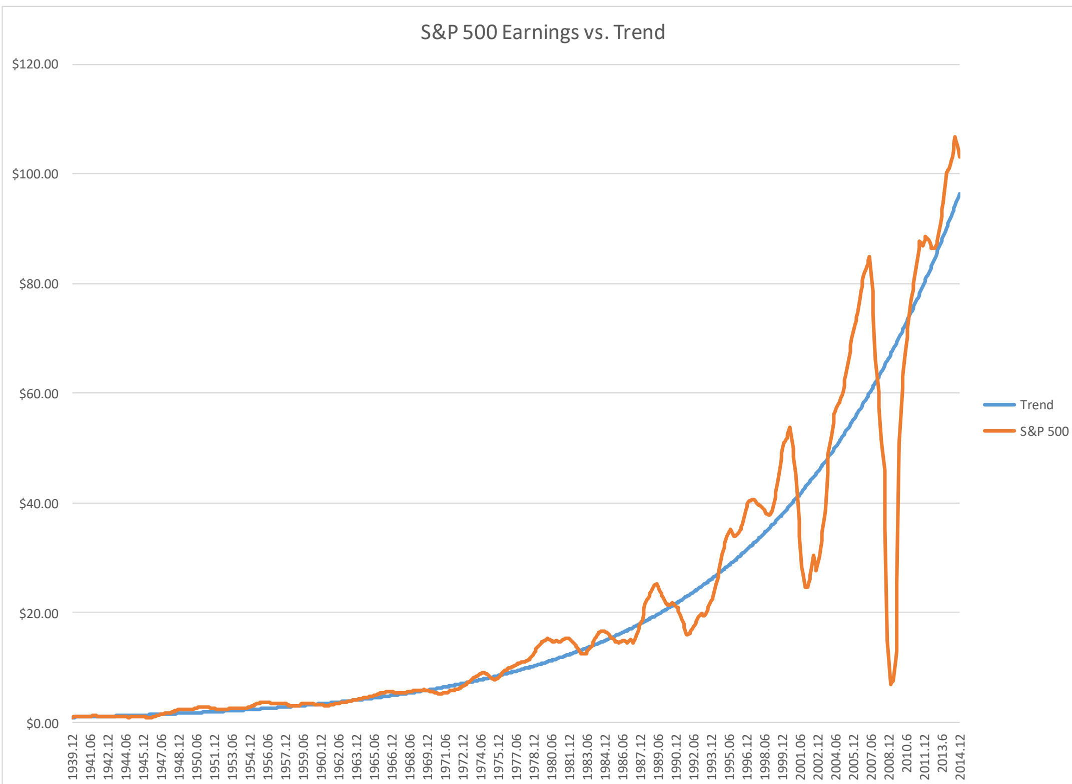


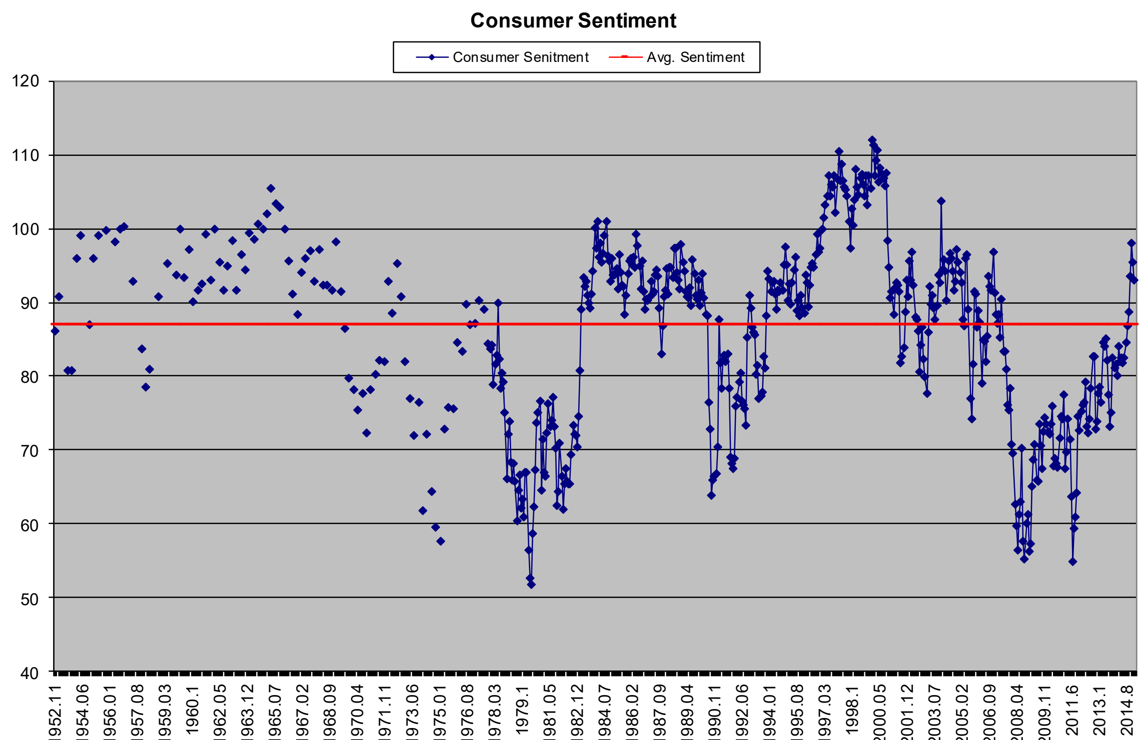
Chart Supplied by the MRPCI Database

What you see is a trend line of where earnings “should be” based on GDP growth and where “as reported” earnings of S&P 500 companies are right now. As you can see, any time this charts gets out of sync, there is a correction. That correction could be a bounce back in earnings, like we saw in 2009, 2002, 1993, etc, etc, etc. Or a pullback in earnings, like we saw in 2007, 2000, etc, etc.

In short, earnings appear to be unsustainably high. But, there is a record amount of stimulus in the system. So, bearing this in mind, “How high can earnings go above trend until they correct?” That’s the question that is causing me a lot of consternation.

-Consumer Sentiment

The biggest factor supporting the continuation of this incredible bull market is the optimism embodied by consumers. Below is a chart of the University of Michigan Consumer Sentiment Index, the higher the chart the more optimistic the U.S. consumer is.



A run from a low level of sentiment to a high level is usually accompanied by a huge run in the market. And long time periods of high sentiment is what is associated with secular/long-term Bull Markets.

In fact, I shared a lot of the background data on this phenomena in the Q2 2014 Client Newsletter. So I won't bore you with it again, except to say that human behavior's impact on the market and market prices is HUGE. And it can produce a "reflexive" market, which I've written about a lot as well (see the reports entitled, "Reflexivity" and "The Path to Reflexivity"), and this type of market can produce eye-popping gains. And, yes, I do believe long-term we are heading towards a reflexive Bull Market.

-Economic Position and Geo-Political Issues

I group these two items together because I think they can bring upon a similar market reaction.

Economically, the U.S. economy has been expanding for about 5 1/2 years. According to the National Bureau of Economic Research, the average expansion since 1945 has lasted 58 months. We are now a little past that number. Therefore, our current expansion has lasted longer than average.

One of the biggest reasons for a cyclical Bear Market to form within a secular Bull Market is a recession. This is why I have been keeping an eye on the health of our current expansion.

In fact, I discussed the potential impact a recession could have on our current market in a report I wrote last year, entitled "A Bear Hunt." Another market impacting factor I discussed in that report was Geo-Political events. Both recessions and Geo-Political events (wars, invasions, tensions, etc), have negative impacts on Bull Market runs. Therefore, we always need to be cognizant of the potential for these events to rear their heads.

Putting all of these things together, we have a market that is behaving normally by running to the upside on any news that **interest rates** will be raised later. As long as they aren't being raised now, the market runs higher. This is good for the here and now but we need to be aware that when they are raised, gains will be harder to come by.

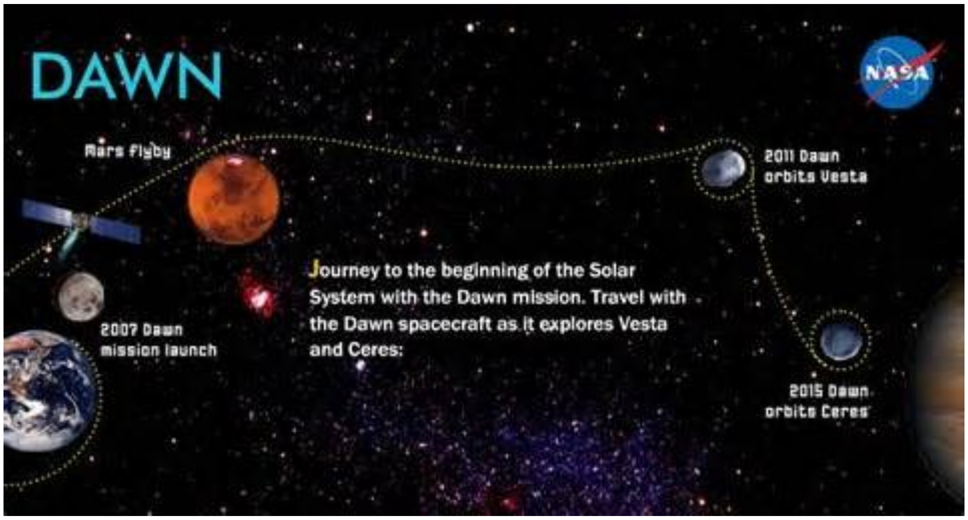
Add to this mix an **optimistic consumer**, and you are seeing more and more upside pressure on market prices. And if **earnings** continue to come in at such a high level, the market should continue to run. However, my work suggests this is not sustainable for the long term. We need an earnings correction to preserve the long-term health of the market. Should we get an earnings sell-off, I will be looking to buy stocks that get over-sold. If we do not see an earnings correction and the market simply runs higher and higher, I will be looking to sell into the rally because, as I said before, this can't go on forever.

Furthermore, if a **recession** were to rear its head and/or a **geo-political event** unfold, this should put pressure on the market. To be prepared for this, it is vital to hold firm to Investment Policies, goals, risk-tolerances, and appropriate asset allocations. We survive, and thrive, during these times of tension by being appropriately positioned going into them.

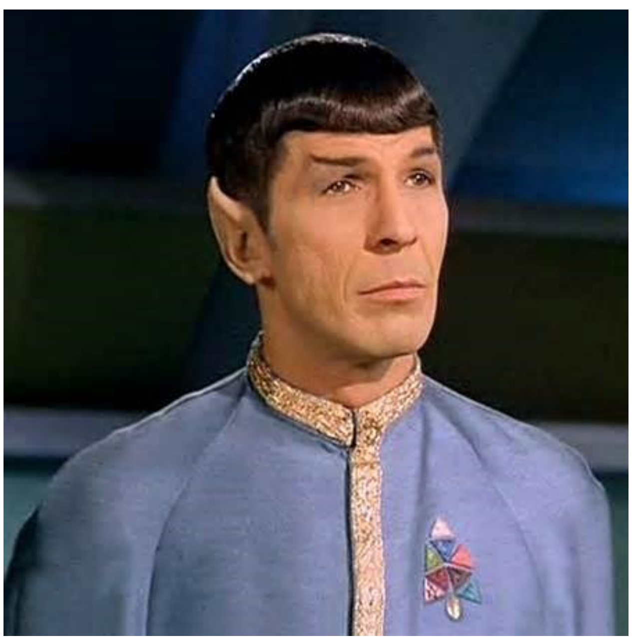
This earnings season will be crucial. If the market continues its run during this earnings season, I will be looking to get more and more defensive. We will profit from these gains, if they do manifest themselves, but I will not recklessly ride the wave of euphoria in spite of all the warning signs.

If this leads to short-term under-performance of the market, that is fine. It will eventually correct itself, and I will strive to be ready to pick up the pieces by making quality investments at good prices. This is what I know leads to excellent long-term performance. As is evidenced by the tremendous profits we've made over the last several years as I had an excellent call on the market being over-valued in 2007/2008 and made a great call on the beginning of the Bull Market beginning in 2009. I will strive to continue to understand these markets and make logical and appropriate decisions for each and every portfolio I'm entrusted to manage.

Non-Financial Events occurring this quarter



NASA's Dawn Mission became the first patrol to visit a dwarf planet, Ceres.



Leonard Nimoy, Spock, passed away.

Michigan State was the only non-#1 seed to make The Final Four in Men's College Basketball.

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