MRP CAPITAL INVESTMENTS, LLC

4th Quarter 2015 Client Newsletter

Capital Market Update

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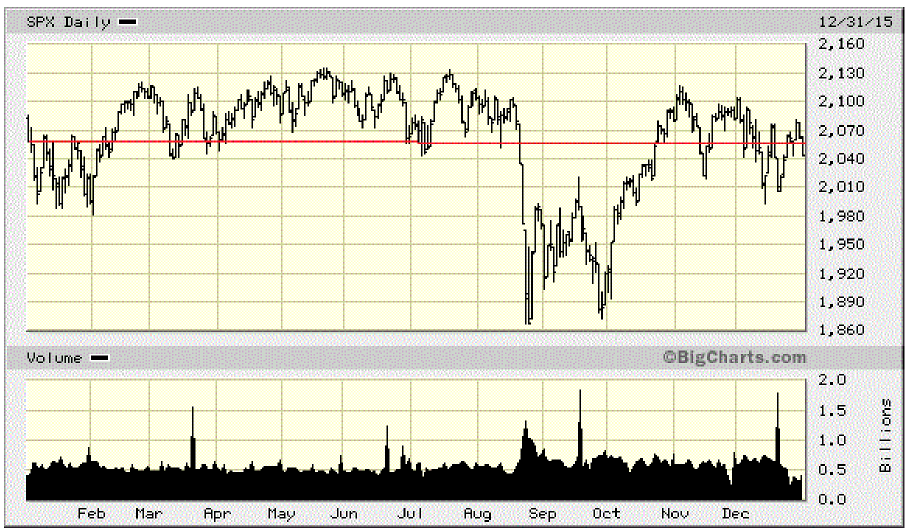
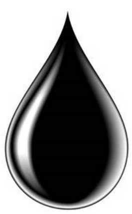
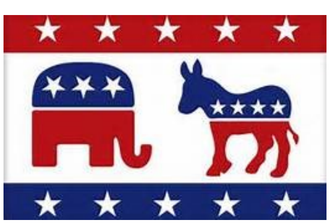
Trendless Volatility; that is how you can accurately sum up 2015. We had all kinds of movement in the S&P 500 but when it all settled out, the market went nowhere.



S&P 500 YTD Chart Supplied by BigCharts.com





To be precise, the S&P 500 declined 0.73% on a price basis for the full year. However, there were times when the index was up 3.7% and there were times when it was down 9.3%. But when it was all said and done, it ended basically flat.

We had a multitude of issues contributing to this flat performance; oil prices plummeted, political dysfunction continued, and geo-political tensions increased. Frankly when you consider all the bad news, it seems improbable that the market wasn't down more. I think that is because the mood of the average U.S. citizen is leaning more towards optimism than pessimism, as is evidenced by the current reading of the University of Michigan Consumer Sentiment Index.

With this, I think it is fair to say that the resiliency of the market was due to the good mood of the U.S. citizens. The key question is; will that continue in 2016?

My Slogan

On my website and on some of my marketing materials, I have a slogan printed. That slogan is **"To be at peace with your position in the Capital Markets, you must put in constant and diligent effort to comprehend what makes the market move."**

And, for sure, I've taken criticism for that slogan being too long-winded. But I won't change it, because I believe it is true and vital to understand. You see, the markets move all the time; one day the market might rally 500 points and the next it might tank 350 points. And if a market participant doesn't understand why those violent swings are happening, they might get overwhelmed and scared and miss out on some amazing opportunities. So, I chose those words carefully.

For me, the beginning of the slogan, "To be at peace with your positon…" is the key. If you know what your long-term objectives are and you know you have a feasible financial strategy for achieving those objectives, you have the foundation for peace of mind. If you then perform constant and diligent effort to stay aware of what is happening in the market and you have the knowledge of what has made the markets move historically, you are in position to be completely at peace with what you are doing in the markets.

To be frank, this is why my clients have been so successful in the markets. Do my clients perform "constant and diligent effort to comprehend what makes the market move"? No, that is why they hire me. I strive to be constantly diligent in regards to the market and my client's objectives. But together, we all must strive to communicate openly, honestly, and freely. Add those two things together and you've got a winning recipe for success in the markets.

I talk all the time about the importance of communication. Why do I do that? Because as circumstances change, portfolio construction will change. If a client has a lifestyle change (buys a new house, sells a business, buys a business, kids go to college, kids graduate college, etc), there is the potential for the need to change the investments and/or the entire Investment Policy for the portfolio to match those new objectives. With open communication, we can always stay abreast of these moving pieces and ensure that the portfolio is designed to meet those needs.

Also, I try to keep all of you in the loop as to what I see in the markets and what I am doing within your portfolio in light of my forecasts. I do this because if my forecasts come to fruition, I hope you are not surprised and together we can move forward with peace of mind knowing that we are locked in on accomplishing your long-term goals.

Some of the things I've noted in my reports over the years that I hope have given you peace of mind include:

In 2005, I wrote a report entitled "The Crossroads/Inflection Point." In it I stated the following; "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." By the way, the "it" was international countries driving the economy.

Due to this, I tracked, very closely, the progress of international economies to see if they were growing. And their progress and my forecast led me to have clients defensively allocated and under-weight equities heading into the financial crisis of 2008. Despite these moves, client's portfolios showed losses. When the S&P 500 falls 37%, there is nowhere to hide. But all portfolios did drastically outperform the market and this was a huge win.

And this set the stage when in February of 2009, I wrote the report entitled "The Beginning of the Bull." Which was me stating that the next great Bull Market was right around the corner. Of course my idea was met with skepticism, as we were in the grasp of the greatest economic disaster since The Great Depression. But, nevertheless, here we stand 7 years deep into this Bull Market and the S&P 500 has appreciated over 200% from the writing of that report.

More recently, I've been trying to let everyone know that I think the market is going to be choppy. In fact, in the Q3 2014 Newsletter I wrote a piece called "Dangerous Precedent." In that article, I mentioned that "We need to be mentally and emotionally ready to withstand 10%+ pullbacks." And ever since then I've been banging that same drum; volatility. And, as we've all seen, the market has indeed ramped up its volatility.

Just a few weeks ago, I sent everyone my report "2016—The Year Ahead." And the theme remains the same; volatility. However I do believe once this year is over, the secular Bull Market should be in a good place and ready to resume its upward progress. Now, that is not to say that 2016 is clearly a year of bad market performance. In fact, the average return of the S&P 500 in an election year, since 1972, is about a 10% gain. With the Fed hiking rates now, I don't expect to see that big of a gain for the market. However, I am not ready to write the entire year off. As volatility ramps up, opportunities usually present themselves. I will strive to take advantage of those opportunities, should they arise.



Live by the Gun, Die by the Gun

It must be due to the media's focus on spectacular returns that makes the average person think the key to making money is all about the big splash. But I'm here to tell you, it is not. What forms the basis for long-term success in the market's is high quality risk-adjusted returns.

I suppose if I had to break it down in a fairly basic manner, there are two types of money management styles. One is what I do for my clients and I call that "Wealth Management." And that is all about getting to know your clients goals, objectives, and risk tolerances and then assessing the current world markets. Once that is done, the investing begins. Risk is monitored and real life tangible goals are broken down into a required rate of return. And the portfolio is managed in a manner that seeks to maximize the probability that the long-term goals are achieved by obtaining that required rate of return.

The other style is what I call "Hedge Fund Management." And that is, essentially, skipping the part about client goals and objectives and simply trying to invest in the markets to maximize returns. Risk tolerance isn't a priority at all; big returns are what is sought after.

What happens is the media quite frequently reports on the hedge fund managers that are putting up big return numbers in any given year. It is obvious why they do that. They do that because it makes for interesting news; hedge fund manager generates 30% returns, while the S&P 500 is up 7%. This makes for a better story than Joe Investor generates 6.5% return while taking 35% less risk than the market. The latter is actually pretty incredible risk-adjusted performance, but the part about taking less risk is more difficult for the average investor to understand. What the average investor can easily understand is the hedge fund manager having a 30% return year. That is quick and easy to grasp.

Two of the media darling hedge fund managers over the past few years have been Bill Ackman and David Einhorn. Both Ackman and Einhorn's portfolios are reported to have fallen 20% and 25%, respectively, in 2015. That is some staggering under-performance, given the S&P 500's 0.73% price decline. But that is what happens when you live by the gun (or big bet); you probably will die by the gun too.

And that is another key difference between Wealth Management and Hedge Fund Management. The high quality wealth manager might miss something or make the wrong investment. But with a diversified portfolio designed with risk management and long-term goals in mind, the damage might be a few percentage points. Meanwhile the big risk taking hedge fund that, most likely, uses leverage to "juice" their returns, gets annihilated when they miss something or make the wrong investment.

Needless to say, the portfolio management style employed by MRP Capital Investments in regards to your portfolio is built off of a well-diversified base and has your specific investment objectives in mind.

Non-Financial Events occurring this quarter

Islamic Terrorists attack Paris on November 13th

Turkey shoots down a Russian jet on November 24th

San Bernardino attacked by Islamic Terrorists on December 2nd

Global Climate Change Forum held on December 12th

<u>INFORMATION AND DISCLOSURES</u>

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