MRP CAPITAL INVESTMENTS, LLC

3rd Quarter 2019 Client Newsletter

Capital Market Update

Inside this report:

Despite some fairly decent up and down market gyrations for the quarter, the S&P 500 price change was +1.19% . However, that puts the year to date price change for the market at +18.74% as of the end of the quarter. Quite frankly any time the market is up that much, it's a pretty darn good year (but we are only 3/4 of the way through the year so far).

We do believe that this is one of the most hated Bull Markets of all time, for reasons we will dig into in the coming articles.

S&P 500 2019 Chart Supplied by BigCharts.com

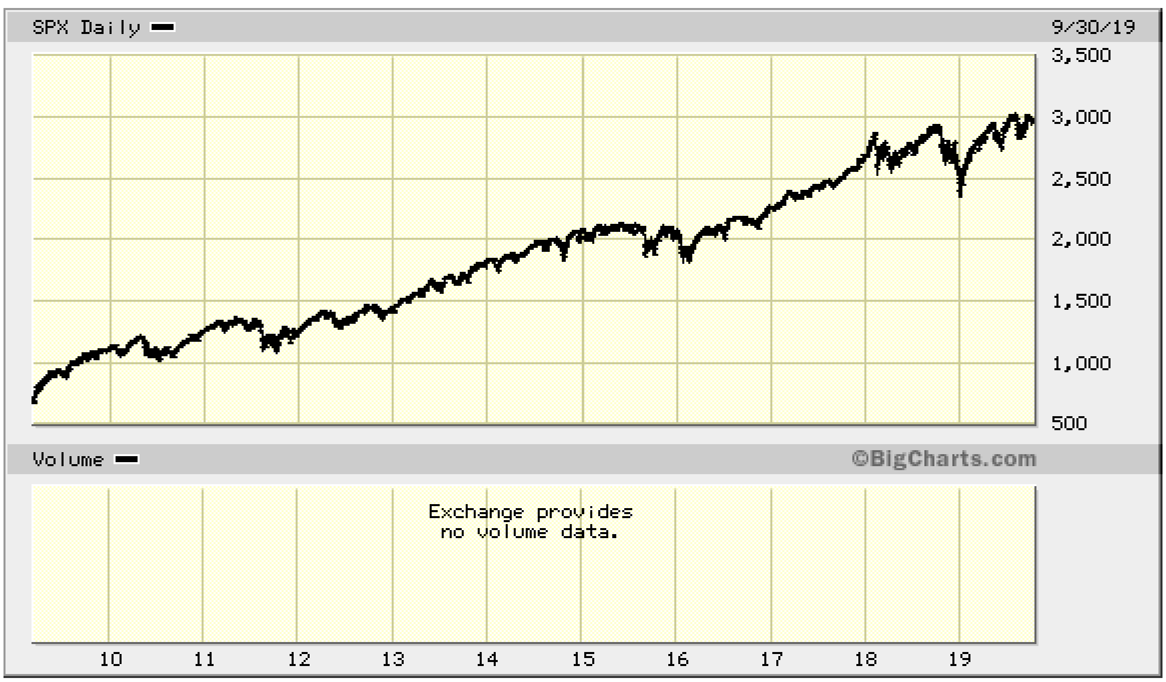
Nevertheless, as we discussed in last quarter's newsletter, earnings drive the market. And if earnings can keep coming in strong, the market should have more upside to run.

With tax rates being low and, now, interest rates being extremely low, we think it is fair to say that the "pump is primed" for companies to have a great chance at making some really good money for their shareholders.

The Most Hated Bull Market

As professional money managers and students of the markets, we, at MRP Capital Investments, are fascinated by what makes markets move. The most obvious driver of the markets is earnings, but the other huge driver are people's reactions to news and events. We do think over the long term, earnings always rule the day. However, quite a bit of time can pass until earnings finally do overrule human behaviors, mainly fear and greed.

Having said that, it seems pretty evident that this Bull Market is one of the most hated Bull Markets of all time. And just to put some numbers to this Bull Market, it has been running, fairly aggressively, to the upside since March of 2009. The low of the preceding Bear Market sell off for the S&P 500 was 666.70, which occurred on March 6, 2009. And as of the end of this last quarter, the S&P 500 registered a reading of 2,979.73.



S&P 500 from 03/06/2009—09/30/2019

If you run those numbers that is an annual price change of 15.29%, which comes out to a cumulative return of 346.42%. So, why with all of this money being made over the last decade do people hate this market?

It is our opinion that this market is so despised for two main reasons;

1) How the bottom was formed

2) Political tension

To address the first point, "How the bottom was formed", I think we can say that the free market believers and the big government advocates came to a point of extreme disagreement during the 2008 crisis. And big government won that battle. Rather than taking the pain that comes with the deceleration that accompanies the end of a business cycle, Central Banks around the world, essentially, bailed out the world, took over industries, and put in a lot of programs and policies designed to mask many of the economic issues that free marketers think the markets should have worked through on their own.

Nevertheless, Quantitative Easing programs were instituted, interest rates were cut to, basically, zero, banks were bailed out, companies were privatized and taken over by the government, seemingly anything and everything was done to save the status quo economy and banking systems.

Regarding this and the hatred of that part of the Bull Market, traditional big money guys don't believe in that type of market saving event. The market wasn't allowed to self-correct and, instead, massive government institutions stepped in and manipulated markets to get the results they wanted. And this isn't how free markets should work, hence the reason why so **<u>many people hate the base this market is built off of.</u>**

The second item I mentioned regarding why this market is so hated is the "political tension" that really came to a head in late 2016 and continues to boil at a high temperature.

In the U.S., we see this as a Trump phenomena. But if you really look globally, there are a lot of political "revolts", if you will. And it really does seem like a lot of these revolts are build off of the foundation laid during the 2008 crisis and the actions taken preceding that crisis, which we just discussed in some of the prior paragraphs.

Some of the global elections that highlight the political struggle that was inherent and imbedded in the 2008 crisis response, included: Jair Bolsonaro winning the Presidential election in Brazil in 2018, the National Democratic Alliance in the most recent Indian general election walking away with 353 seats and an unprecedented majority, and in France Marie Le Pen's loss to Emmanuel Macron in early 2017.

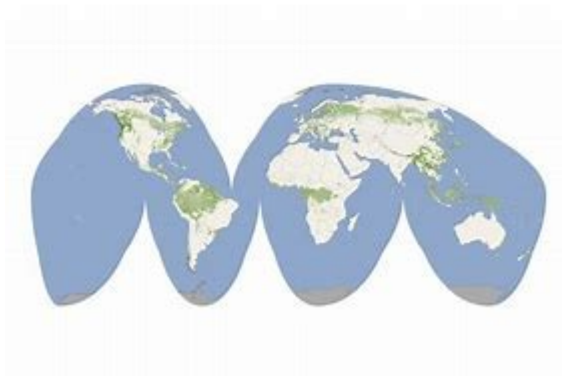
These political elections are one thing but it is also the uprisings within communist and socialist economies that are also creating tension. We have all seen the devastation a place like Venezuela is going through given their current political policies. However, right now, Hong Kong citizens are protesting against various measures trying to be put upon them by the Chinese government. Perhaps this is the most clear and direct example of a free and democratic society fighting for their future and their way of life against a communistic government that wants to instill their values and way of life upon the Hong Kong citizens.

Frankly, the point is not which one is right or which one is wrong. The point is that the decisions and results of these elections and battles could not be more important. People's entire way of life depends on it. And it is, our belief that, **this tension in the back of people's minds creates anxiety about the capital markets and asset prices**.

Combining this anxiety regarding the global political climate with some people's dislike on how the foundation of this Bull Market was formed leads many investors to distrust and hate this Bull Market. Nevertheless, this market has taken us up over 300% since the 2009 low and up another 18%+ so far this year. Keep hating this market, we don't mind making money in the meantime.

A Debt Based Economy

What has become crystal clear to us, at MRP Capital Investments, is that our entire global economy is built off of debt financing. As of 4/11/2018, we had $237 trillion dollars of debt in our economic system. Meanwhile, the IMF (International Monetary Fund) projects 2019 global GDP to be $88.08 trillion.

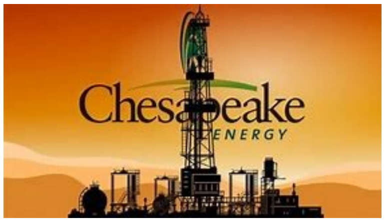


Running those numbers, you come up with a Debt to GDP level on a global basis of 269%. Which to a normal person, seems completely absurd. However in 2017 global debt to GDP was 318%, so improvements are being made. But after the actions taken during the 2008 crisis, it looks like the world is irrevocably changed. And that change is an economy built on the back of debt and central bank intervention.

As professional portfolio managers, we always strive to assess the investment environment and seek out the best course of action regardless of the how dire things look. And in this instance with an economy that has an incredible amount of outstanding debt, we think a VERY strong case can be made that interest rates will be low for a very long time.

To be 100% frank, low interest rates can have a very beneficial effect on an economy. They do have several negative ones as well, but the positives are pretty important. But both good and bad impacts are derived from the same source; businesses can get capital to run their operations at super cheap prices.

That is a massive positive for good businesses because they can keep growing and improving people's lives all in a very cost effective way. The negative to that same story is that bad businesses are allowed to hang around for, potentially, too long because they also can operate on the cheap.



And this can screw up the free market's survival of the fittest mantra by allowing "non-fit" businesses to linger and take market share from better companies. But, over time, the better run businesses will eventually win. It just takes awhile longer before the market's truly become efficient and for the cream to rise to the top.

In summary, this debt based economy can seem scary at first blush. But once you understand the dynamics behind it, low interest rates (and even negative interest rates) start to make some sense and ideas on how to take advantage of those low rates begin to appear.

Non-Financial Events occurring this quarter

Boris Johnson became Prime Minister
of the United Kingdom

Saudi Arabia Oilfields were attacked

Hong Kong Protests continued

American Business icon, Ross Perot
passed away

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