

MRP CAPITAL INVESTMENTS, LLC

1st Quarter 2021 Client Newsletter

Capital Market Update

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As we mentioned in the last newsletter, we had a lot of confidence regarding the markets as we headed into 2021. So far, it appears our feelings were justified. In the 1st quarter, the S&P registered a price change of +5.77%. During this move, the market was very steady and resolute in its movement. There wasn't a lot of flash, nor was there a lot of glamour. Instead, we simply saw consistent gains.



S&P 500 2021 Chart Supplied by BigCharts.com



Throughout 2021, we think you can expect more of the same. The Fed and the Treasury have made it clear that they will do whatever it takes to ensure that asset prices are stable, if not appreciating. Surely, we've all heard the saying "Don't fight the Fed." Market participants have been saying those words for multiple generations. Make no mistake about it, there is a reason for that. When the Fed is on your side, they can make the game a lot easier to win.

Of course, twist and turns will occur as the days tick by in 2021. There will be scares and reasons to worry. This is why we asset allocate when managing money. However, we feel pretty good about the market for 2021.

Changing Times

We are living through some pretty amazing times. It seems to be a time of great change that is laying the foundation for what future generations will build off of as our planet and global culture evolve. Quite frankly, the term “global culture” seems to be the key concept at the heart of these areas of change. These areas of change are widespread and not limited to financial markets. They impact our social interactions, our environment, our standards and norms, and our way of life in broad terms.



As mentioned, these changes are broad based and not limited to the financial markets. But since our relationship’s focus is on your finances, we are going to look at these changes through the eyes of an investor.

One of the most important things we saw over the last few months was the power of big tech and big media. Right now, the most powerful companies in the world are the high flying technology stocks. Interestingly enough, almost every one of those companies is involved in monitoring people, actions, and communications 24 hours a day, 7 days a week. Google, Amazon, and Facebook are three great examples of the powerful tech and media companies we are referring to. These companies are so powerful they completely and totally silenced a sitting President of the United States. Not only was the President banned from Facebook and other social media sites, but then when he tried to communicate via another social media site, Parler, Amazon Web Services shut down Parler’s access to the internet all together.

Quite frankly, this was the biggest “flex” I’ve ever seen in my life. The sitting President of the most powerful nation on Earth was completely shut off from any access he had to communicate with the citizens he was in charge of representing. The only conclusion that can be drawn from this is that these tech companies are more powerful than the President of the United States of America.



From the last point, we can see how these big tech companies might be the most powerful entities in the world. Maybe that is because their reach and influence isn't limited to any one country. Rather, they are truly global by nature.

That leads into another important area of change that could have an impact on the investing world. On the 5th of April, Treasury Secretary Yellen gave a speech to the Chicago Council on Global Affairs and she called for a global minimum corporate tax rate. If this singular concept doesn't provide insight into how vast the plans to fully globalize our world are, we don't know what does. Here is the Treasury Secretary of the United States calling for every other sovereign nation in the world to follow her recommendation and adjust their country's tax codes to make her, and her constituents, happy.



By adding this comment to many other actions, plans, discussions, and strategies that are currently in place, it is clear that there is a massive desire by many of the most powerful entities in the world to fully integrate our global economic affairs under one umbrella. It is our opinion that they would like to consolidate their authority in order to make it easier for them to manage and control the financial system.

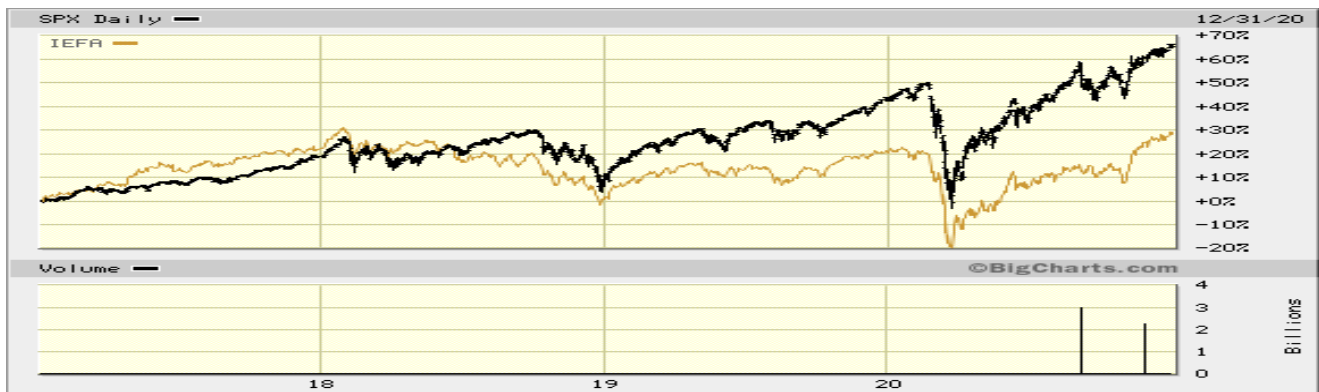
We wouldn't be surprised if this push for globalism and global unification leads to some new concepts regarding currencies. With the rise of digital assets, many Central Banks are looking into creating digital versions of their own currencies. There is also a lot of discussion about what a new, and truly global, currency could look like. Many point to the International Monetary Fund's Special Drawing Rights (SDR) basket approach as having a lot of validity. They take a basket of currencies and use them as support for their SDR. The US dollar is currently the defacto world's reserve currency, but the approach the IMF is taking (with their SDR) seems to favor equity and equality in regards to currencies.



We bring up equity and equality, in terms of global currencies, because those concepts seem to be forming the basis for many big picture decisions being made around the globe. All you have to do is look at the websites of the World Economic Forum, World Health Organization, World Bank or, frankly, almost any global entity to see that the terms “equality” and “equity” come up again and again. With this being the case, it would make sense to us that big government and corporate funds will be backing up and supporting organizations that espouse those same concepts.



Using our investor mindset, in regards to the facts and ideas just discussed, we can begin to look for investment ideas in our current market. Under the prior administration the mantra was: America First! And, interestingly enough, U.S. stocks outperformed International stocks by a wide margin. With that mantra no longer being espoused by the Biden Administration, international investment markets need to be seriously considered for investment opportunities.



S&P 500 vs. Global Markets (minus US and Canada) from 12/31/2016-12/31/2020

Provided by Bigcharts.com

Another calling card of the new administration, and the global community in general, is green energy. Sustainable and reusable energy sources seem to be at the heart of the changing times within the energy sector.

One of the most concerning aspects of these changing times and the grand plans of the global community is how are these amazing projects going to get funded? When we wrote our 2020 research report entitled “Liquidity,” we discussed how massive the spread between global GDP growth and global debt growth had become and this was before the multi-trillion dollar money printing spree the governments of the world went on to combat the COVID-19 scare. Nevertheless, we said the following in that report prior to the coronavirus pandemic:

“In 2007, global debt was \$97 trillion and world GDP was \$57.968 trillion. By 2018, global debt was \$243 trillion and world GDP was \$85.91 trillion. In raw numbers, we added \$146 trillion dollars in total global debt and at the same time increased output by approximately \$28 trillion. The debt to GDP ratios of the corresponding times equate to 167% in 2007 and 282% in 2018. It becomes pretty obvious that the amount of growth we need to “normalize” the system is ENORMOUS and/or we have a “new normal.” And we do think we have a new normal in the context of very low interest rates and continued Central Bank interventions for the foreseeable future.”

Clearly if this debt to growth issue was a problem before the COVID spending spree, then it is an even a bigger problem now.

With that, we have seen another massive spike in the price of Bitcoin. And this has shined a light on the cryptocurrency space. In our opinion, the term “cryptocurrency” is a bit misleading. We prefer to think of the entire space as a Decentralized Financial network, as this highlights the main difference between our current financial system and the crypto space.

To expand upon that further, in our current central bank run financial market, the world’s Central Bankers run the show. They tell banks how much cash they need to keep in reserve, they set interest rates, they control the money supply, they approve money transfers, and they perform many other management and oversight functions within the banking system. They are the central controller of the whole system.



On the other hand, the crypto world is a decentralized financial system. Rather than a central authority running the show, the participants in the system run and regulate the system. Decentralized computers, used by the digital asset network's participants, verify transactions as a collective and nothing happens until the decentralized network of computers agree that the transactions are valid. In general, this makes things less time consuming and costly for the consumer. It also brings control of the financial system back into the hands of the people and away from a central authority making all the decisions.

Determining if crypto assets belong in your portfolio is a decision each investor needs to make in consultation with their financial adviser. However, we find it interesting that in an age where big tech companies are seemingly more powerful than the President, the Decentralized Financial space is built on the backbone of some of the world's most powerful computers.



Additionally, in a world that certainly appears to be embracing the full call of globalism and interconnected global markets, we find it interesting that these crypto networks and protocols work across borders seamlessly. This makes crypto accessible to anyone in the world with no individual making unilateral decisions for the network as a whole. To us, that seems pretty equitable and fair.



For those interested in a more detailed analysis on the world of Decentralized Finance, we will be releasing a robust research report on the entire cryptocurrency space fairly soon. There is no question that this system has some very serious benefits and some substantial and unique risks that investors need to consider.

Our Current Place and Time

As we've been mentioned in our research over the last few quarters, we seem to be approaching the Euphoria Phase of our Bull Market run. In this phase, an incredible amount of money can be made as people become enamored with the capital markets and pile their cash into investments.

Making sound investments and prudent capital allocation decisions is what being a successful investor is all about. In the time of Euphoria, however, many investors don't pay attention to and/or understand how to value the assets they are purchasing. We discussed this concept briefly in our last newsletter, in the article titled "New Investors." These new investors are excited and interested to make money in the markets. Even without understanding things fully, they jump in and make investments. Ready, Fire, Aim!

We are of the opinion that during these euphoric times in the market, a prudent investor needs to recognize what is occurring in order to make the most of the situation, while always keeping an eye towards risk control. In short, make as much of the profit as you can while the market is running, but be aware that, when the downturn happens, the losses of a market bust are, almost, always more painful than the gains were joyful. Risk control is very important as the Bull Market reaches final maturity.

As we've discussed several times over the years, we track the market's fundamental underpinnings in an effort to comprehend how far along we are in any market cycle. Right now, our data shows the following:

-Actual Earnings Relative to Potential shows a 14.3% discount. This suggests that earnings can move higher from current levels by 14% just to reach "fair value."

-Valuation-On a raw P/E basis, the stock market is expensive. When compared to bonds, stocks are cheap. P/E's on stocks are high, but the return investors can get on bonds is so low that stocks appear to be a better bet.

-Consumer Sentiment-The University of Michigan Consumer Sentiment Index shows that the mood of the consumer/investor is average. The reading shows no exuberance or despair, consumers/investors are neutral in their views on the economy.

-Volatility-After the record setting spike in fear/volatility during COVID, the level of fear in the market has been steadily declining. However, it isn't back to pre-pandemic levels. The degree of uneasiness in the market is higher than average.

Putting these together, we see that we have a foundation in place that can lead to higher prices for our investments in the market. With the potential for increasing earnings providing the biggest opportunity for this growth.

With that, we don't think we are in the final days of this run being over. Based on our analysis, it appears that we've got a fair amount of time left for the market to run to the upside. When our indicators begin to give us warning signs, we will begin de-risking portfolios. Why? Two reasons; 1) our metrics have provided us good insight into market turns in the past and 2) When you see stuff like this on the front page of major financial news websites (see images below), you've got to be aware of the possibility that some over-exuberance and naivety is imbedded in the pricing of investments.



As always, we are constantly monitoring the markets. Things will change and we will make adjustments. Right now, however, we see the market trading with a bias to the upside as the money printing and excitement over the economy being re-opened after the COVID-19 shutdown are providing fuel for the market's move higher.

Non-Financial Events occurring this quarter



January 6th, Capitol Hill swarmed by protestors in response to the election process



January 20th, Biden/Harris sworn in as President and Vice-President



January 22nd, the legendary Hank Aaron passes away



Violence against Asian-Americans began occurring due to anger over COVID



February 1st, a coup takes places in Myanmar



February 4th, Biden Administration ceases supplying weapons to Saudi Arabia



February 9th, WHO concludes that COVID was likely to have come from bats not a Chinese lab in Wuhan.



February 19th, America officially rejoins the Paris Climate Accord

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