MRP CAPITAL INVESTMENTS, LLC

2nd Quarter 2021 Client Newsletter

Capital Market Update

Inside this report:

Our main message in last quarter's newsletter was "Don't Fight the Fed" because its apparent to us that the cadre of Central Bankers around the world are doing everything they can to prop up asset prices. They are doing this because in our global debt based economy we need to use those assets as collateral to support current loans and to make new loans. If asset prices fall, a debt-based economy struggles to function as collateral becomes scarce.

With this, the 2nd quarter saw the S&P 500 rally 8.17%. This puts the year to date price change through the end of the quarter at 14.41%.

S&P 500 2021 Chart Supplied by BigCharts.com

When we first mentioned that we thought the market would continue its Bull Market run after the 2020 election, regardless of who won, many people scoffed at that idea. Now, it seems that, many people are jumping on the bandwagon. This piling on effect can push asset prices past the point of where rational investors feel comfortable. If this were to happen, a lot of money could be made. But if risk controls are not in place, a lot of money can be lost when investors regain their rational outlooks. The key is capturing as much upside as you can, while keeping checks and balances in place.

Economic Analysis

As we've mentioned in our past writing, this is one of the most hated bull markets that we've ever seen. Frankly, the reasons for all of the distaste regarding this market are warranted. At the epicenter of this loathing lurks the fact that this bull market is built on the back of global central bank manipulation. Many market observers believe this market interference began with the economic maneuvers made during the 2008 financial crisis. And, to be fair, that pushed the manipulative actions to an all-time high but the manipulation of the financial markets started way before then. However, the central bankers actions during 2008 were blown away by the degree and depth of the market tinkering performed during the COVID crisis and lockdowns.

Nevertheless, anyone who chose not to participate in these market after 2008 due to their concerns over the market's ability to rise when it is built upon such a non-traditional foundation has taken a step back relative to investors who have been riding this wave of asset price surges. From the lows of the 2008 financial crisis, the price of the S&P 500 has appreciated 538%. Over the last 5 years, the market is up about 100%. And year to date, it is up over 14%. These returns are fantastic but investors must always analyze all of the investment opportunities presented to them.

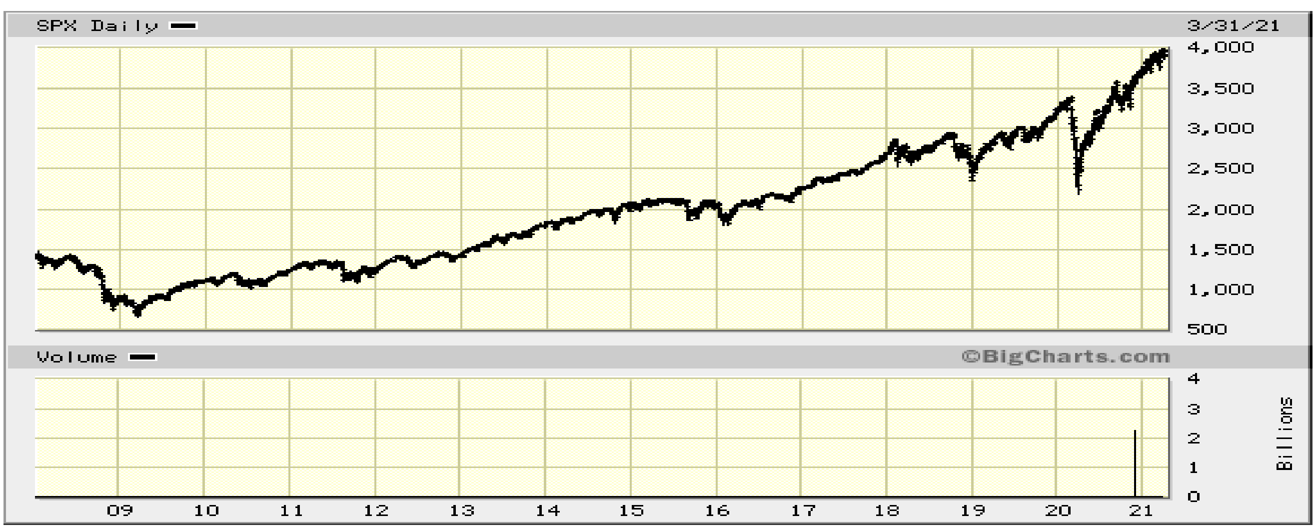


Chart of the S&P 500 from 01/01/2008—03/31/2021 provided by BigCharts.com

With that, let's consider the returns of bonds over those same time frames. At the bottom of the financial crisis, investors who wanted to put their money into the safety of Treasuries could have locked in a yield of 2.25% in late 2008. Compounding this 2.25% return until today puts the gross return of that investment at 33.5%. Investors who put their money into gold, perhaps thinking the Central Banker's actions would lead to inflation, would have earned 141% during those same years. And investors who put their money into residential real estate would have earned about 60% over the same time frame.

After seeing the data on the previous page concerning returns, it is pretty easy to understand that putting money into the stock market has been a really good investment for a long-period of time. As the level of market manipulation increases, the "haters" of this market continue to build upon their 2008 level of distaste. The question is ultimately, Are these "haters" correct? In other words, should we hate this market or should we love it?

When someone really looks at the economic data, it certainly appears that the financial landscape of the global economy is in an unstainable trend. Which, of course, supports the "hater" crowed. Prior to the 2008 Financial Crisis, global debt levels were $97 trillion and global GDP was $57.68 trillion. Now global debt is $281 trillion and GDP is currently estimated to be $83.844 trillion. To put all of that together since the financial crisis and after COVID, global debt has gone up $184 trillion and global GDP has only risen by $26.2 trillion. It is really hard to make a case that this type of economic data is a sign of a robust economy.

However when you see the types of moves being made by the world's central bankers, it becomes really hard to make a stand against them. Not only have they engineered an economy that is seeing asset prices rise substantially but they have also constructed the economy in such a way that it can see these rising prices in the face of additional global debt accumulation of $184 trillion. This debt growth seems to be pushing the bankers towards the fairly new economic theory of Modern Monetary Theory. MMT is a unique concept that money can be printed by sovereign nations in almost limitless quantities This money printing, according to MMT proponents, stimulates the economy and, therefore, the markets in a very consistent manner.

The mantra of "Don't Fight the Fed" seems to be the rallying call of market bulls. The bulls are being rewarded with broad based asset price appreciation. At the same time, we are seeing a growing number of investors who are not believers in the long-term viability of these Central Bank strategies. These investors are beginning to embrace the concepts imbedded in Decentralized Finance because this takes the control of economic policies and the monetary system out of the hands of an elite group of bankers and puts it into the hands of the citizens of the world. In fact, the bulk of the cryptocurrency assets, like Bitcoin, embrace the ideas behind Decentralized Finance.

Over time, we will see how all of this shakes out. But for now, the Central Bankers continue to print money and keep interest rates low. And in turn, asset prices appreciate. All the while, the infrastructure needed to support a robust global Decentralized Financial system are being developed. In due time, the winner of the Centralized vs. Decentralized battle will be known. But for now, central bankers are printing money and discussing how they are going to control the inflationary pressures being created by their actions. Meanwhile, crypto markets are being built out and improved as fast as they can be constructed.

A New World

As we look around the world of investments, we see things that are truly mind blowing. In fact, many of the new businesses being built today are like something we saw on the science fiction movies back in our youth. Remember when cellphones first came out? Nokia comes to mind when I think of those phones. Flip phones. Remember those? Just like the communication devices used in Star Trek by Captain Kirk. Now we have smart phones that can control every single aspect of our lives including the temperature in our house, running our dishwasher, and, if anyone ever wants to actually talk to someone, making a phone call.

The technological innovation that we have witnessed over the last few years is staggering. Self-driving cars are becoming a reality. We are on the cusp of human beings taking trips into space for recreation. Right now, people are able to work from home with almost no drop off in productivity as compared to working in the office. And, quite frankly, these innovations and advancements show no signs of slowing down.

In our minds, there is no doubt that these innovations will flow through to government actions and into the currency markets. We've already seen the emergence of the crypto-currency markets and following that decentralized financial platforms and protocols. One of the next major things that we think will make its way into the markets are Central Bank Digital Currencies. CBDC's are essentially digital forms of existing currencies, such as U.S. Dollars. By having fully digital currencies, governments can completely track and, therefore, **TAX** all transactions taking place in which their currencies are used.

This complete control and oversight over financial markets is the bedrock of Centralized Financial systems. However, many people feel like governments have overstepped their bounds and have begun to infringe upon the personal liberties of their citizens. This kind of thinking laid the foundation for Decentralized Financial systems.

For people who haven't been knee deep into the financial markets over the last several years, they may be confused on what the heck Decentralized Finance is all about. It appears to have all started with a group of, for lack of a better term, computer geeks who called themselves the "Cypherpunks." They were, effectively, Libertarians with an elite understanding of computers, technological innovation, programming, and cryptography. One of their most famous declarations was their 1993 "CypherPunk's Manifesto," which detailed their concerns for privacy in the digital age. Below are what I consider the highlights of that manifesto:

"Privacy is necessary for an open society in the electronic age. Privacy is not secrecy. A private matter is something one doesn't want the whole world to know, but a secret matter is something one doesn't want anybody to know. Privacy is the power to selectively reveal oneself to the world....

privacy in an open society requires anonymous transaction systems. ...

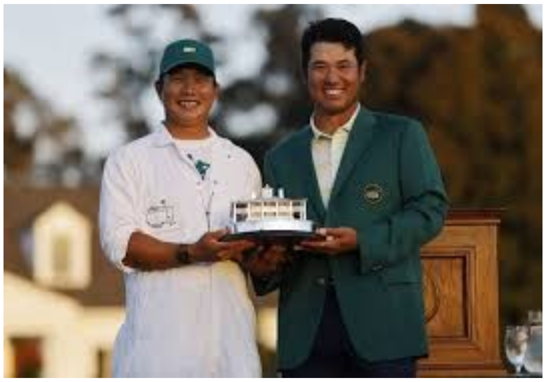
We the Cypherpunks are dedicated to building anonymous systems. We are defending our privacy with cryptography, with anonymous mail forwarding systems, with digital signatures, and with electronic money."

From there, these Cypherpunks, and other's of similar mindsets, set out to develop "currencies" that could be transacted over computer networks not controlled and run by governments and/or government entities.

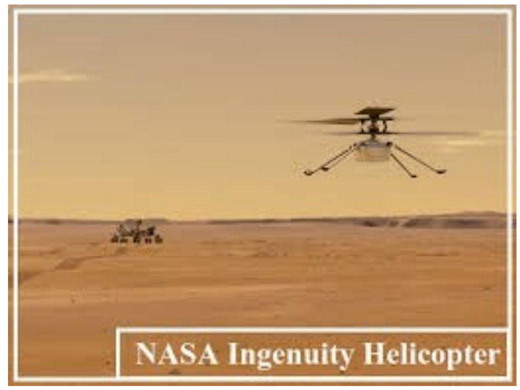
With that, we see the genesis idea for cryptocurrency. Bitcoin, the most famous digital asset, is a consensus network that enables a new payment system and a completely digital money. It is the first decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen.

We do think these innovations will continue to be generated at a rapid and accelerating pace. And the areas the innovations will occur in will not be limited at all. Technological innovation will be part of it, but the innovation will, almost certainly, occur in totally unexpected areas. The phrase "Expect the unexpected" comes to mind. And with that, rest assured we have our minds open as we look for investment opportunities within our current market.

Non-Financial Events occurring this quarter



Hideki Matsuyama won the Masters in April.



In July, NASA performed the first remote helicopter flight on another planet.

Chelsea won the Champions league in May

Condo collapsed in Florida in June killing 97 people

Medina Spirit won the Kentucky Derby in May

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