MRP CAPITAL INVESTMENTS, LLC

1st Quarter 2024 Client Newsletter

Capital Market Update

Inside this report:

The 1st quarter of 2024 was one of the most interesting quarters we've ever seen during our time as professional money managers. First off, Presidential election years normally see a decent pullback in the first quarter. In fact, that pullback happens nearly 80% of the time. That's almost a sure bet. But, nope. This market didn't pullback at all. See the chart below.

S&P 500 2024 Chart Supplied by Trading View

And that leads into the second item on the interesting things about this market list. Look at that chart again. It literally went straight up. Can you recall a market that rallied that consistently? That consistency helped the S&P 500 close out the quarter with a 10.56% gain.

That quarterly gain annualizes to a 49.41% annual return. That would be the biggest market rally in Presidential election year history, as it would surpass 1928's 37.88% gain. It would also be the biggest year for the S&P 500 ever, as it would surpass 1933's 46.59% rally.

Do we think the market will maintain this pace? No. However, the economy does appear to be in good shape and household net worths are at record levels. Therefore, we don't see a crash anytime soon either. Rather a sideways consolidation leading into the election makes sense to us.

Current State of Affairs

Since 2024 is a Presidential Election year, we spent a lot of time last year researching historical market behaviors during Presidential Election years. To summarize what we detailed in the last quarterly newsletter in regards to those findings, we can say that;

To begin the year you have:

- a 72% of a January pullback in the markets which averages 7%. And you have
- a 62% chance that those January pullbacks will begin immediately. However, there is
- a 6% chance the sell off doesn't happen until late February/early March.

To put it mildly, our current market is bucking those historical trends. Instead of being one of the 78% of markets that sell off in the first quarter, Mr. Market threw us a curveball and rallied all the way through the 1st quarter.

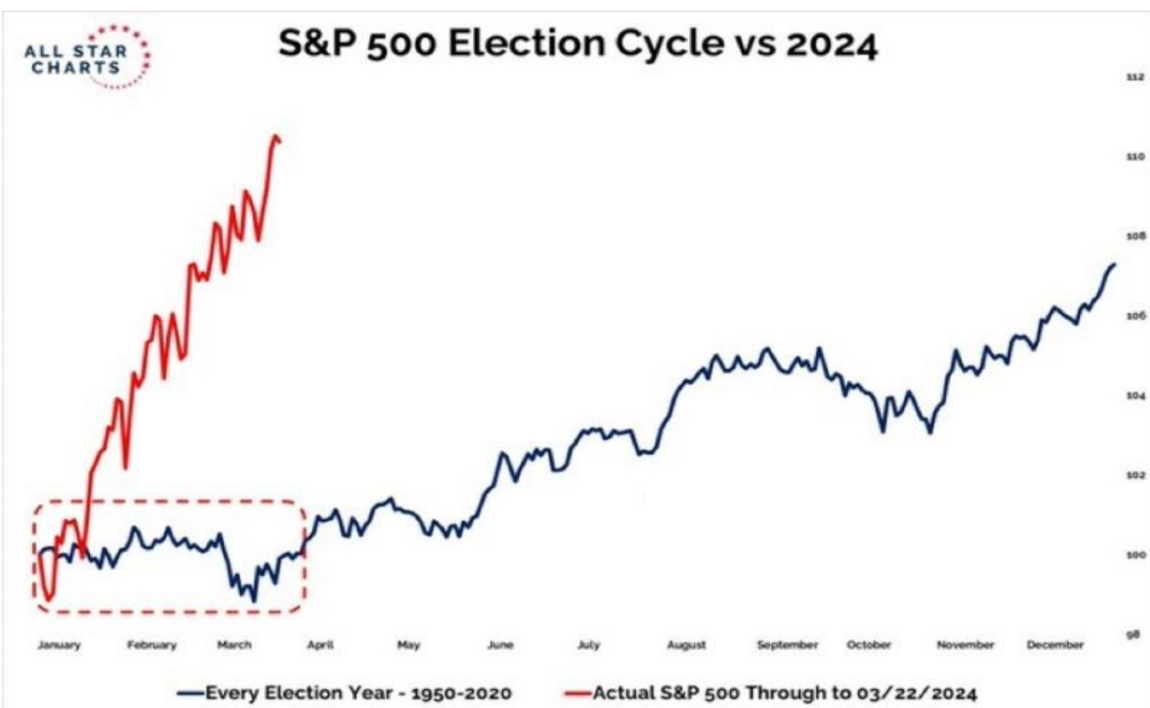


Chart provided by X (formerly Twitter)

During our research process we also found out that in Presidential election years there is a tendency for the market to sell off prior to the election. Of the 18 election years we looked at only one did not experience a pre-election selloff -1964. The remainder of the years saw selloffs averaging 7.62% and, on average, those selloffs began on September 1st and ended on October 15th.

Finally, the data showed us that there is a pretty consistent 20% rally from the lows of the pre-election selloff until the end of the year.

The years that didn't see a selloff in the first quarter of a Presidential election year were; 1964, 1972, 1976 and 2012. Below is a chart showing S&P 500 returns in those markets with various time frames highlighted.

	Prior Year	1st Qtr.	Sep. 1st	Nov. 5th	Full Year	Next Yr.
1964	18.89%	5.30%	9.10%	13.52%	12.97%	9.06%
1972	10.79%	5.30%	8.80%	11.60%	15.63%	-17.37%
1976	31.55%	13.99%	14.10%	11.70%	19.15%	-11.50%
2012	0%	12%	12%	12%	13.40%	29.60%
2024	26.29%	10.16%	???	???	???	???

Data/table provided by the MRPCI database

Looking at these numbers, it appears that these election year markets see a lot of their gains materialize in the first quarter and then they trend sideways until the pre-election sell off.

What isn't shown on this table is the pre-election selloff data, which historically averages 6.75%. And interestingly enough, 1964, as we've mentioned, didn't experience a pre-election sell off. Instead, it mildly pulled back after the election. That selloff data is included in the number highlighted above.

Regarding the end of the year rallies that these election year markets historically experience, we put together the following data summary:

-1964's market bottomed on 11/16/1964 and rallied 6.24% until 1/29/1965

-1972's market bottomed on 10/16/1972 and rallied 14.67% until 1/11/1973

-1976's market bottomed on 11/11/1976 and rallied 9.98% until 12/31/1976

-2012's market bottomed on 11/16/2012 and rallied 29.01% until 5/13/2013

Given that the post-election rally of all markets since 1958 average close to 20% and these figures average 14.97%, we see that these markets don't experience as big of a post-election bump as the "normal" markets do. This does seem to make sense if you think of it as the market already gave them that bump by not selling them off in the first quarter, like it did the other 80% of markets. Perhaps it is fair to say that, it all seems to average itself out in the end.

Putting all of these facts and figures together in an effort to understand our current market, it seems the data is pointing us towards the concept that history may not repeat itself, but it sure does rhyme. Historically, the markets that didn't fall in the first quarter, didn't see as much upside from that point on as the "normal" markets did. And it makes sense that this should happen in our current market because earnings are high and valuations are stretched. We need a sideways market to let earnings catchup to price.

It could be the case that just as earnings and price are catching up to one another, the markets start their pre-election pullback. However if earnings have caught up to market prices and we sell off anyway, isn't that a reason for a year end rally? It sure is. And guess what historically happens, almost like clockwork, after Presidential elections? A big year end rally.

That being said, it looks like the Bullish Forecast we laid out in the last newsletter is playing out. We had an S&P 500 target of 5,589 in that forecast, which implies further upside of about 6.5% to 7% from here in terms of total return. And, given where we are here at quarter's end, that does sound a lot like a sideways market that rallies after a pre-election pullback to me.

Long story short, we don't see the market continuing its record setting pace throughout the entire year. But we don't see any imminent market chaos right around the corner either. We simply see the market taking a breather, then getting a bit nervous before the election, and then celebrating the election being over with some solid gains as the S&P 500 flirts with 20% total return for the year..

Internet Bubble vs. A.I.

In the annals of economic history, few periods stand out as vividly as the dot-com bubble of the late 1990s. It was a time of unparalleled optimism, wild speculation, and breathtaking valuations that eventually led to a catastrophic burst. Fast forward to the present, and we find ourselves amidst another technological revolution - the artificial intelligence (AI) boom. As an investor, drawing parallels between the exuberance of the late 1990s and our current AI-driven landscape is both insightful and cautionary. This article explores the similarities between the internet bubble and the AI boom, examining the lessons learned and the implications for investors navigating these disruptive waves of innovation.

The Fever of Innovation—The late 1990s witnessed an explosion of innovation centered around the internet. Companies sprouted overnight, promising revolutionary solutions to age-old problems. The mantra was simple: "Get online or get left behind." Today, we see a similar frenzy surrounding AI. From self-driving cars to virtual assistants, AI-powered technologies are permeating every aspect of our lives. Startups are mushrooming, and established corporations are rushing to integrate AI into their operations. The excitement is palpable, reminiscent of the internet euphoria of yesteryears.

Valuation Frenzy—One of the defining features of the dot-com bubble was sky-high valuations detached from traditional metrics like revenue and earnings. Companies with little more than a catchy name and a website commanded billions in market capitalization. Similarly, in today's AI boom, we see astronomical valuations assigned to companies based on the promise of future AI dominance. Whether it's autonomous robots or AI-driven healthcare, investors seem willing to overlook fundamentals in favor of speculative potential.

<u>Hype and Hysteria</u>—During the internet bubble, it seemed that every new startup was hailed as the next big thing. Investors poured money into companies with little scrutiny, driven by fear of missing out (FOMO). The media played a crucial role in hyping up the frenzy, creating a self-perpetuating cycle of irrational exuberance. Today, AI is the darling of headlines, with promises of transforming industries and revolutionizing society. The hype surrounding AI has reached fever pitch, fueling investor enthusiasm and driving valuations to dizzying heights.

<u>Regulatory Uncertainty</u>—Just as the internet posed regulatory challenges in the late 1990s, AI technologies are raising profound questions about ethics, privacy, and accountability. Issues like algorithmic bias, job displacement, and data privacy loom large, inviting scrutiny from policymakers and regulators. The regulatory landscape for AI remains nebulous, with governments scrambling to catch up with the rapid pace of technological advancement. This uncertainty adds another layer of risk for investors navigating the AI landscape.

<u>Winners and Losers</u>—When the dot-com bubble burst in the early 2000s, many companies vanished overnight, leaving behind a trail of bankruptcies and shattered dreams. However, amid the rubble emerged a handful of survivors that went on to dominate the digital economy. Similarly, in the current AI boom, we can expect a Darwinian struggle for supremacy. Not every AI startup will succeed, and even established players are not immune to disruption. Identifying the winners amidst the noise requires a discerning eye and a long-term perspective.

Lessons Learned—As investors, the lessons from the dot-com bubble are instructive in navigating the current AI landscape. First and foremost, beware of irrational exuberance. Valuations that defy logic are unsustainable in the long run. Second, focus on fundamentals. Look for companies with solid business models, sustainable revenue streams, and a clear path to profitability. Third, diversify your portfolio. Spread your investments across different sectors and geographies to mitigate risk. Finally, stay informed. Keep abreast of the latest developments in AI technology, regulatory trends, and market dynamics.

Conclusion—The parallels between the internet bubble and the AI boom are striking, serving as a cautionary tale for investors seduced by the allure of revolutionary technologies. While the potential of AI to transform industries and improve lives is undeniable, prudent investors must tread carefully amidst the hype and hysteria. By learning from the mistakes of the past and maintaining a disciplined approach, investors can position themselves to capitalize on the opportunities presented by the AI revolution while mitigating the risks of another bubble burst. In the words of Warren Buffett, "Be fearful when others are greedy, and greedy when others are fearful."

The most important piece of information to take from this article is that it was written 100% by Artificial Intelligence.

We simply logged into Chat GPT and told it to write an article comparing the internet bubble and our current A.I boom from the perspective of an investor. Not a single word was changed by us. The only things we did was change a little bit of the formatting so it fit into our newsletter and we added the pictures. I think this gives a good example of the productivity enhancements A.I. can bring to the table.

Cryptocurrency Update

In the last newsletter, we mentioned that next quarter a spot bitcoin exchange traded fund would hit the market. We also added that this would open a new avenue of investment into bitcoin and that would be very important for its growth and broad adoption.

Indeed, the SEC did approve those ETFs and many asset management firms launched their own bitcoin funds. The pace of investment into these funds is smashing records in respect to new ETFs and the amount of money being invested into them and the speed at which those investments are taking place. The top five spot bitcoin funds, in terms of assets under management, as of the end of the quarter were:

Grayscale Bitcoin Trust* GBTC—$24.03 billion

Blackrock's IBIT—$17.41 billion

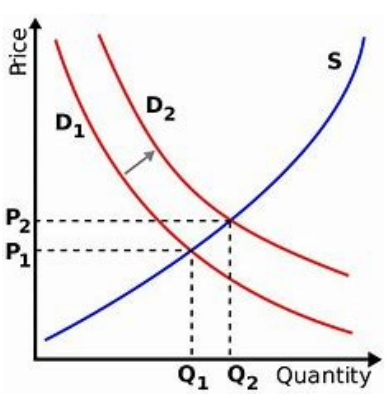
Fidelity's FBTC—$10.17 billion

Ark's ARKB—$2.92 billion

Bitwise's BITB —$2.17 billion

These funds were only approved by the SEC in mid-January and they have already amassed $58.64 billion. That is a staggering pace of asset accumulation!

We all know that one of the basic laws of economics is: the more demand for a product, the higher it's price will be. Given this, you'd think this added demand for bitcoin from the ETFs would have had a positive impact on bitcoin's price.



*Grayscale's GBTC offering converted to an ETF from a Trust structure and, as such, their assets under management weren't all collected after the SEC's approval.

And you would be right! This quarter saw BTCUSDs price rise 65.49%. Which puts its gains from the 2022 low at 355.19%.

2024 BTCUSD Chart provided by Tradingview

We also mentioned "the halving" in the last newsletter. The "halving" refers to the fact that every four years the Bitcoin network reduces the amount of bitcoin that miners receive for validating transactions on the Bitcoin network's blockchain. This reduction is a 50% reduction and has historically been associated with massive price increases during the year of, and the year after, the halving.

The demand shock from the new ETFs took BTCUSD up 65%. And in April, the market for BTC will also see a supply shock from the halving. It'll be fascinating to see how the price action unfolds when this occurs.

The reason we talk about crypto and bitcoin in every newsletter is that we think its characteristics combined with the current status of our debt-based fiat financial system makes it an attractive investment. And because of this, many of our clients are invested in bitcoin one way or another. Rest assured that we just didn't "willy nilly" decide to invest in crypto. Our portfolio management team spent a lot of hours studying, learning, and trading crypto with their own money before it was even a consideration to invest clients money in the space. We did all of that hard work to become the investment experts, even in the newer fields of investment like crypto, that our clients expect us to be.

One of the things we discovered during our time in crypto are the studies that firms and organizations like Morgan Stanley, Chartered Financial Analysts Institute, Goldman Sachs, Bitwise, and Fidelity (to name just a few) have put out to their clients and the investment community at large. Below is a summary of a study that compared a standard 60% equity and 40% fixed income portfolio to similar portfolios but with added exposure to bitcoin.

Table 1:

Portfolio Performance Metrics (Assuming Quarterly Rebalancing)

Portfolio	Cumulative Return	Annualized Return	Volatility (Annualized Std. Dev.)	Sharpe Ratio	Maximum Drawdown
Traditional 60/40 Portfolio	64.34%	5.38%	10.59%	0.290	22.67%
Traditional Portfolio + 1.0% Bitcoin	78.56%	6.31%	10.65%	0.373	23.31%
Traditional Portfolio + 2.5% Bitcoin	101.57%	7.67%	10.88%	0.488	24.26%
Traditional Portfolio + 5.0% Bitcoin	144.68%	9.90%	11.61%	0.645	25.87%

Source: Bitwise Asset Management with data from IEX Cloud. Data from January 1, 2014 to June 30, 2023.

Past performance does not predict or guarantee future results. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. Historical performance of sample portfolios has been generated and maximized with the benefit of hindsight. The returns do not represent the returns of an actual account and do not include the fees and expenses associated with buying, selling and holding funds or crypto assets. Performance information is provided for informational purposes only.

You can kind of "eyeball" the data and get the sense that adding bitcoin to a portfolio adds a pretty good amount of return with just a touch of extra volatility/risk. If you are a finance geek, like the MRPCI crew is, all you need to do is look at the Sharpe Ratio and see which one has the highest reading in order to find the best allocation percentages. That is because the Sharpe Ratio represents the additional amount of return that an investor receives per unit of increase in risk. Therefore, the higher the number, the better for your portfolio.

These studies can get pretty deep and they normally aren't satisfied with just a basic layer of information or understanding. For instance, the last chart demonstrated that adding some bitcoin to a portfolio enhanced that portfolio's risk/return profile. However when they looked at systematically rebalancing the portfolio over different timeframes, their grasp of the portfolio's risk/return profile became more robust.

Table 4:

Portfolio Performance Metrics

Portfolio	Cumulative Return	Annualized Return	Volatility (Annualized Std. Dev.)	Sharpe Ratio	Sortino Ratio	Maximum Drawdown
Traditional 60/40 Portfolio (No Rebalancing)	65.21%	5.44%	11.37%	0.275	0.028	23.90%
2.5% Bitcoin Allocation (No Rebalancing)	160.77%	10.64%	20.71%	0.397	0.043	51.35%
2.5% Bitcoin Allocation (Annual Rebalancing)	131.50%	9.26%	11.38%	0.603	0.056	24.72%
2.5% Bitcoin Allocation (Quarterly Rebalancing)	101.39%	7.67%	10.89%	0.487	0.045	24.26%
2.5% Bitcoin Allocation (Monthly Rebalancing)	88.27%	6.90%	10.86%	0.42	0.04	24.17%

Source: Bitwise Asset Management with data from IEX Cloud. Data from January 1, 2014 to June 30, 2023.

Past performance does not predict or guarantee future results. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. Historical performance of sample portfolios has been generated and maximized with the benefit of hindsight. The returns do not represent the returns of an actual account and do not include the fees and expenses associated with buying, selling and holding funds or crypto assets. Performance information is provided for informational purposes only.

This study introduces the Sortino Ratio, which takes the Sharpe Ratio to the next level. While the Sharpe Ratio considers all volatility to be risk, the Sortino Ratio only uses downside volatility as a measure of risk. However, they both are used as a way to compare returns across differing styles/asset classes in order to see which has the higher return per added unit of risk or risk-adjusted returns.

You can see that there is a positive impact when rebalancing is added into the equation. In fact, you can see that by adding 2.5% bitcoin to a standard stock and bond portfolio and rebalancing annually, you just about **double the return of the portfolio and you add, essentially, no risk/volatility to the portfolio.**

One last piece of the study I wanted to show everyone is simply a bigger view of the changes in the risk/return profile of a portfolio when adding different levels of exposure to bitcoin.

Table 5:

Portfolio Performance Metrics by Bitcoin Allocation (Assuming Quarterly Rebalancing)

Bitcoin Allocation	*Cumulative Return*			*Sharpe Ratio*			*Standard Deviation*			*Maximum Drawdown*		
	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max	Min	Avg	Max
0%	0.51%	22.46%	54.60%	-0.184	0.49	1.188	6.90%	9.84%	15.34%	6.77%	14.26%	22.67%
1%	5.16%	29.97%	70.22%	-0.044	0.697	1.633	6.95%	10.06%	15.48%	6.88%	14.60%	23.31%
2%	7.37%	37.91%	121.27%	0.01	0.845	1.856	7.22%	10.62%	18.80%	8.37%	15.03%	30.24%
3%	9.59%	46.30%	180.91%	0.056	0.954	1.946	7.69%	11.36%	23.15%	8.29%	15.97%	34.94%
4%	10.14%	55.16%	250.08%	0.099	1.037	1.986	8.00%	12.19%	26.96%	8.22%	17.03%	38.25%
5%	10.32%	64.51%	329.72%	0.127	1.104	2.034	8.14%	13.08%	30.32%	8.42%	18.27%	41.04%
6%	10.48%	74.37%	421.85%	0.129	1.159	2.172	8.33%	13.99%	33.35%	8.32%	19.48%	43.30%
7%	10.62%	84.76%	526.78%	0.13	1.206	2.303	8.56%	14.92%	36.10%	8.34%	20.64%	45.19%
8%	10.75%	95.70%	645.56%	0.13	1.245	2.43	8.83%	15.86%	38.64%	8.36%	21.73%	46.83%
9%	10.85%	107.21%	779.33%	0.129	1.279	2.552	9.13%	16.80%	40.99%	8.41%	22.77%	48.28%
10%	10.94%	119.31%	929.30%	0.126	1.309	2.671	9.47%	17.74%	43.20%	8.59%	23.77%	49.58%

Source: Bitwise Asset Management with data from IEX Cloud. Data from January 1, 2014 to June 30, 2023.

Past performance does not predict or guarantee future results. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns. Historical performance of sample portfolios has been generated and maximized with the benefit of hindsight. The returns do not represent the returns of an actual account and do not include the fees and expenses associated with buying, selling and holding funds or crypto assets. Performance information is provided for informational purposes only.

I think the findings can be summarized as: any amount of bitcoin, if properly allocated and rebalanced, adds value to investment portfolios.

Non-Financial Events occurring this quarter

7.5 Mww earthquake hit Japan on January 1st

Kansas City Chiefs won the Super Bowl

U.S.A. struck 85 targets in Syria and Iran in response to deadly drone attacks

March Madness began

Japan became the 5th country to land on the moon

INFORMATION AND DISCLOSURES

This publication is a snapshot of the research and opinions of MRP Capital Investments, LLC. And with that, the opinions and predictions set forth in our publications are our professional beliefs at the time of publication. We are not under duress or pressure from any of the corporate entities mentioned, nor do we intend to do business with them on the investment banking or advisory side of things. This report is not a solicitation or inducement to take action, whether buying or selling, based upon the opinions presented.

Although MRP Capital Investments, LLC is an investment advisor, these publications are not to be construed as investment advice. We strive to be as impartial, insightful and accurate as possible. We do base our opinions, analysis, and calculations on information and analysis that we believe to be reliable, but we cannot guarantee that they are either accurate or complete. We may change our minds about any item mentioned and we will not necessarily update them in print.

Please contact MRP Capital Investments, LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current Form ADV Part 2A disclosure brochure is available upon request.

MRP Capital Investments, LLC and/or its officers or employees, may have a position in the securities mentioned in this report, and may purchase or sell such securities from time to time.

Finally, we must disclose that investments have the potential for profit and loss and that PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

MRP CAPITAL INVESTMENTS, LLC

8440 Holcomb Bridge Road, Suite 520

Alpharetta, GA 30022

404-274-7851

www.mrpci.com