MRP CAPITAL INVESTMENTS, LLC

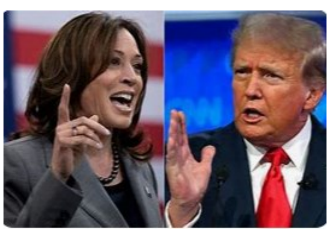
3rd Quarter 2024 Client Newsletter

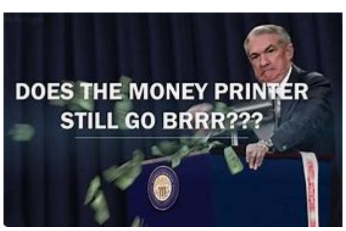
Capital Market Update

Inside this report:

The 3rd quarter was another rocky ride for the market that ended up being a big winner. For the quarter, the S&P 500's price change was +5.53%. Which puts the year's return at +20.81% through the end of Q3.

S&P 500 2024 Chart Supplied by Trading View



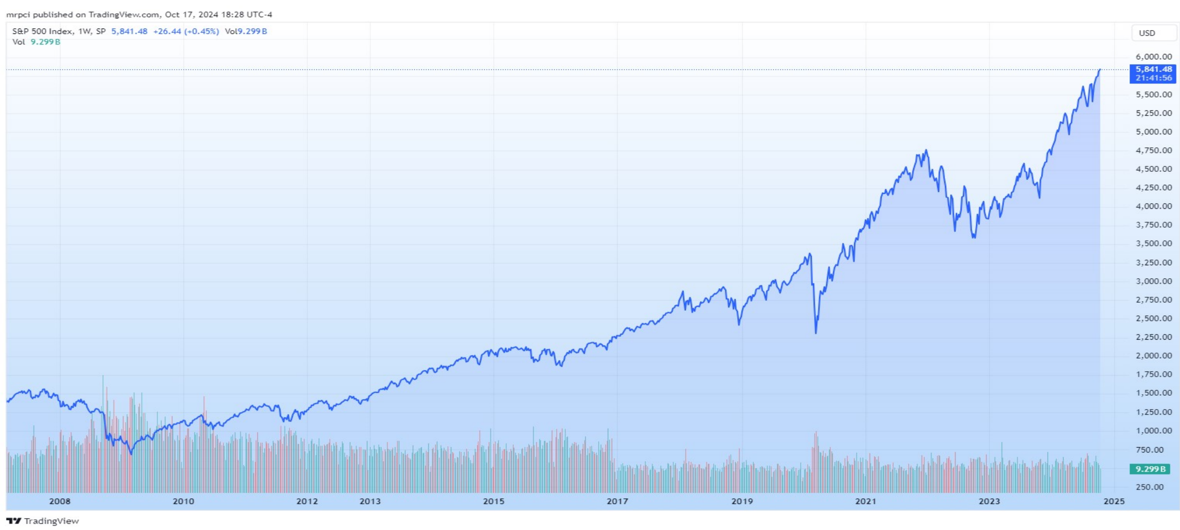


This year continues to surprise to the upside. Our Bull case for this year was for the S&P 500 to end the year at 5,250, which represented an 8.25% gain. As of quarter end, we were at 5,755. This market continues to remain upbeat, apparently focusing on the beginning of a Fed rate cutting cycle rather than multiple regional conflicts heating up.

Historically, Presidential election years see a 7-10% pullback right before the election as investors take some chips off the table due to the uncertainty of the election. Then as the results come in there is a mega-rally lasting into the following year. We are expecting something like this to happen, but with this bullish of a market: who knows?

What the market should do

Quite frankly, we are at a very important moment in terms of history for the stock market. We have seen the market continuing to rip higher ever since the conclusion of the 2008 Financial Crisis. Of course, there have been some sell offs, like the COVID sell off and 2022, but after those blips the market kept on humming along.



S&P 500 2009-2024 Chart Supplied by Trading View

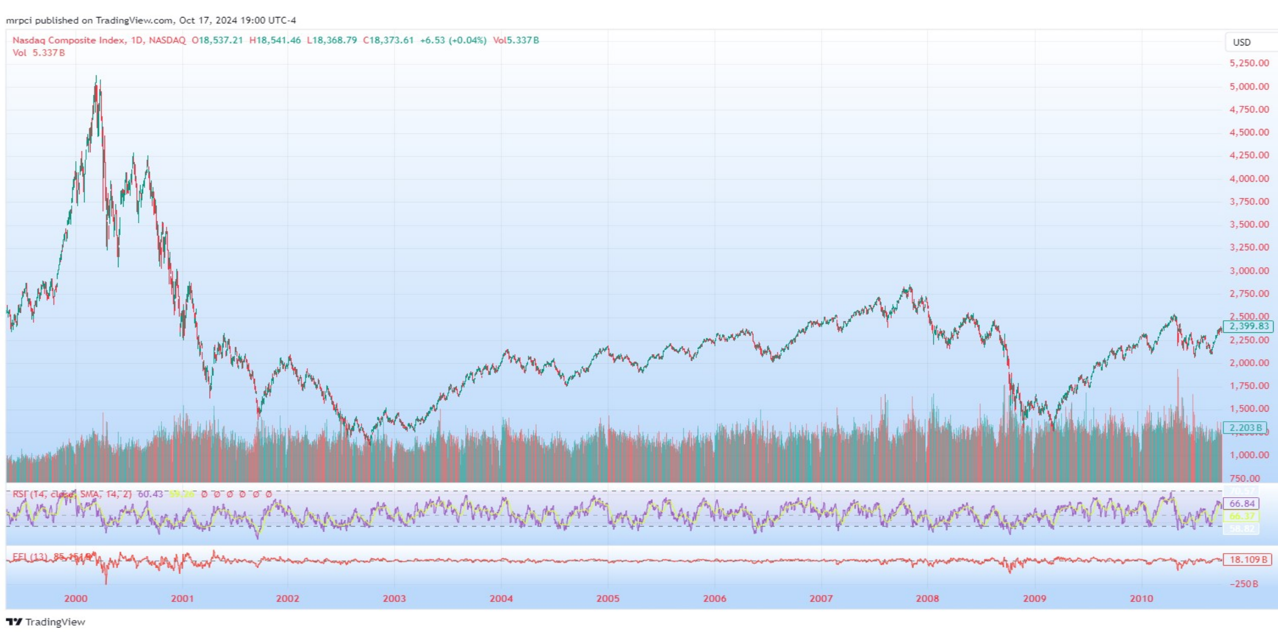
Readers of our work know that we believe that is because after the collapse of the market in 2008, the Price to Earnings Ratio hit single digits, all the earnings write offs sent earnings to epically low levels, and the mood of investors was historically low while their level of fear was sky high. This type of pessimistic landscape actually sets the stage for a massive Bull Market run and, in fact, that is what we wrote about in our February 2009 research report called “The Beginning of the Bull,” and that is what unfolded in the markets.

Right now, the exact opposite of that is in sight. We are not pounding the table and saying that is going to happen for sure. But for the first time since this secular Bull Market began, that set of circumstances is conceivable. We have the Price to Earnings ratio for the market in the 20’s. Per our Market Earnings Model, earnings are well above potential. However, as of now, the mood of investors is not too optimistic and they still show signs of fear instead of complacency about the risks in the market.

The fact that investors are somewhat fearful and not too bullish is the key point regarding the timeframe of our current Bull Market. What that means is that there is still room for investors to move from pessimistic to optimistic and that historically has been accompanied by further investment into the market. As we see Consumer Sentiment improve, we should see investors deploy more capital into the market. This adds further bullish momentum into the market and prices should continue to rise. This, historically, has also led to a drop in investor fear of the market, which tends to bring about speculative investments being made. Which, of course, adds even more momentum to the upside of market prices.

The last time we saw a massive shift in investors from pessimism to optimism was in 2009. The difference between then and now is that in 2009 P/E's were around 10 and touched single digits a few times. Now, we are well into the 20's. What that means is that if nothing changes in terms of earnings improvements, the market could double in 2009 by just taking P/E's from incredibly low to normal. Now, we are at, or above, normal valuation levels. There is no upside boost that can RATIONALLY be expected from a rise in the Price to Earnings ratio of the market.

And that word "rationally" is key. The market CAN rally almost any amount, but should it? Should a market trade at 100 times earnings? 1980's Japan and 2000 NASDAQ markets tell us that the answer is: no. Both of those markets fell over 80% when their 100 x P/E bubbles burst. Obviously, we don't want our market to do that.



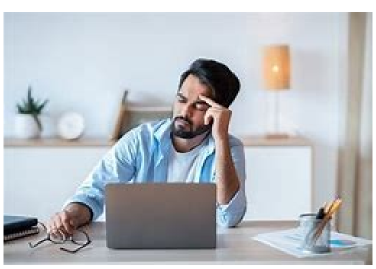
NASDAQ chart from 1999-2011 provided by Trading View

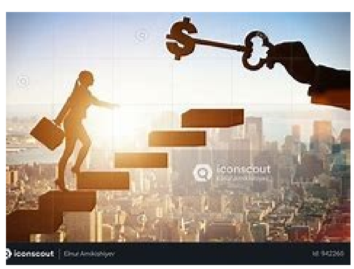
By the time everyone gets this newsletter, we should be in the middle of the key events that will tell our path forward. We need the market to sell off before the election. I know that sounds weird to say, but with what normally follows an election we could end up way out of balance in terms of what makes a healthy market, if we don't sell off a little first.

What I mean by that is right after the election results are known the market usually goes on a 20%+ rally that goes through the end of the current year and into the next year. Furthermore, the 1st year of a President's term is historically the best time to make money in the market. Without the pre-election pullback, if the post-election rally and the 1st year of a term rally occur, we could see the market rally 50% from where we are now. That would put the S&P 500 over 8,500. Given that expected 2025 earnings are $252, that would put the P/E ratio of the market at 33.73.

If that were to occur, this secular Bull Market/Boom Phase would be 17 years long at the end of 2025. It would have appreciated 1,615%. For context, my work shows that the average Boom Phase lasts 18 years and appreciates 1,018%. That would put our current Bull Market a tad short of the length and way over the return of a typical Boom Phase market. This type of over-valuation in the market sets the stage for the next phase to potentially occur very soon: the Bust Phase/Bear Market.

Getting that pullback before these expected rallies gives the market some buffer before over-valuation takes hold. And, of course, it would be more fun in the short-term to not have any pullbacks. But this pre-election pullback would make for a small amount of stress in the short-term, but puts the foundation for the market on more solid footing for continued long-term gains.





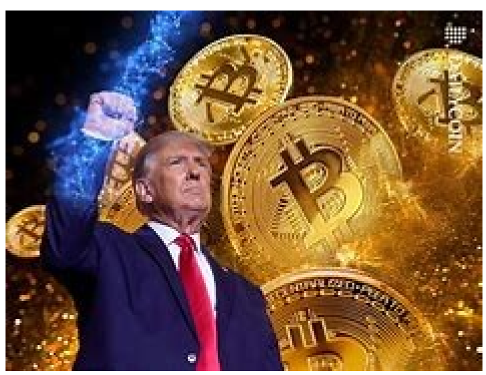
What will exactly happen only time will tell. However, it is interesting to note that the beginning of this year didn't follow the typical election year path. And it wasn't until quarter two that the historical patterns of the market and election years became more in sync with each other. This 4th quarter may blaze its own trail and we will be watching and making course adjustments as needed.

Cryptocurrency Update

As everyone knows, in every edition of the newsletter we have at least one article dedicated to the cryptocurrency arena. Last edition, we talked about “tokenization” because we think that process will become mainstream in the next several years and we wanted everyone to be somewhat educated on what it is.

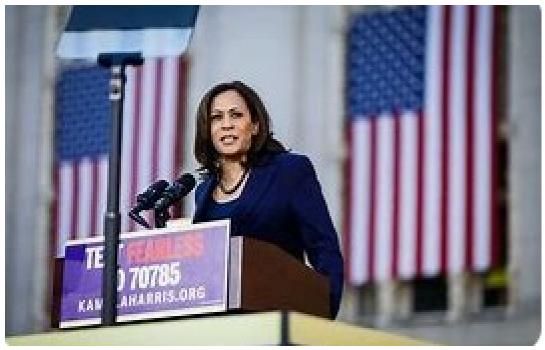
In this newsletter, we think it makes sense to highlight the Presidential candidates’ views on cryptocurrency. If crypto, blockchain, tokenization, and the like are going to be important concepts as the years pass, doesn’t it make sense to at least have a base level understanding of what our choices for President of the United States of America think about those issues? We think, yes, it is important.

Former President Donald Trump seemed to be anti-bitcoin and cryptocurrency during his tenure as President. However, somewhere between the end of his term as President and the beginning of his run in this election he was ‘orange pilled”, as devoted bitcoiners would say. Perhaps his speech at the 2024 Nashville Bitcoin Conference provides the best insight into his beliefs and potential actions regarding cryptocurrency if he were to be elected again.



During this speech he laid out his plans and agenda for bitcoin and cryptocurrency. The big and underlying message was that he wants America to dominate the cryptocurrency industry. He wants bitcoin, and other cryptos, to be mined and minted in the United States. He wants the crypto industry to be a huge job creating industry in the USA. And he wants the U.S. Government to develop a Strategic Bitcoin Stockpile and HODL (never sell) all (any) of it with the hopes it can continue its growth and it can help with the government’s debt load.

Kamala Harris made her first public statement about crypto during her presidential campaign. She said, “We will partner together to invest in America’s competitiveness, to invest in America’s future. We will encourage innovative technologies like AI and digital assets while protecting our consumers and investors.”



Additionally, Brian Nelson, her senior campaign advisor, suggested she would support the crypto industry if she wins the presidential election. It looks like her first line of support will be establishing the “rules of the road.”

When you compare and contrast the two candidates, there are stark differences. Harris appears to be most interested in getting the laws and regulations buttoned up and dispersed across the industry. This way all the players know the rules of the game and can conduct their business accordingly. Trump, on the other hand, wants to make the United States of America the bitcoin heavyweight champion of the world. He wants the U.S. government to have a massive stockpile of bitcoin. And he wants the U.S. to be the dominant miner in the world too.

In our opinion no matter who wins the election, crypto should take another step forward and become more widely utilized.

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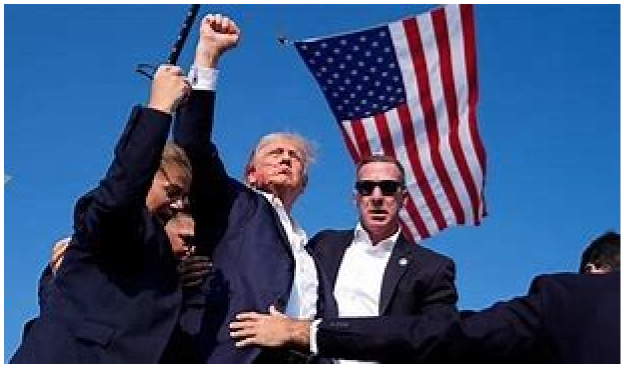
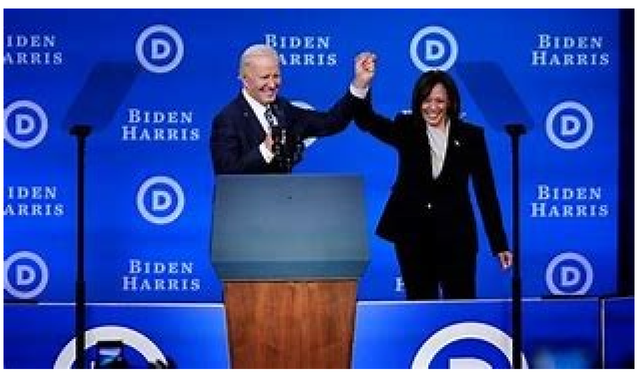
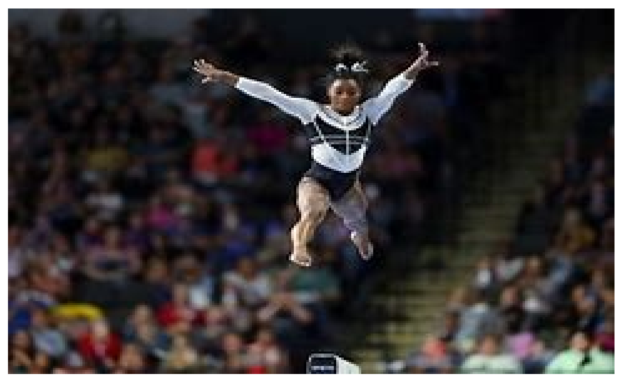
Non-Financial Events occurring this quarter



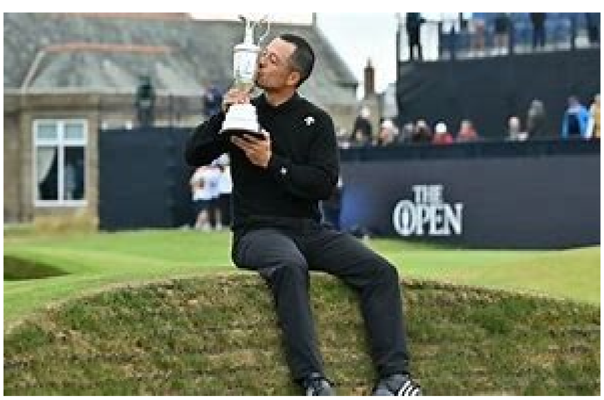
President Trump survives being shot in an attempted assassination on July 13th



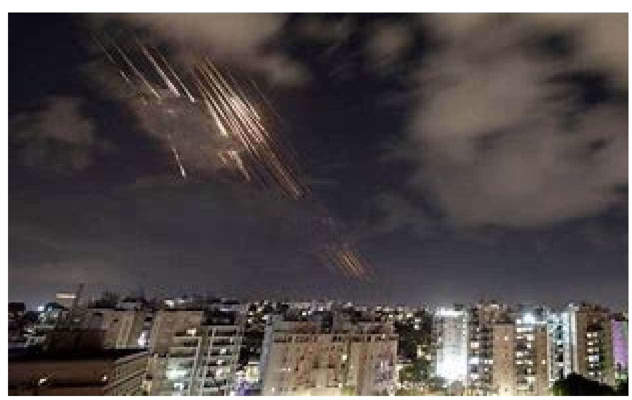
President Biden drops out of race and is replaced by his V.P. Kamala Harris



The Olympics took place in Paris from July 26th-August 11th



Xander Schauffele won The Open Championship at Royal Troon



Iran fired more than 300 missiles at Israel during the continued conflict in the Middle East

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