

MRP CAPITAL INVESTMENTS, LLC

4th Quarter 2024 Client Newsletter

Capital Market Update

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This past year was, evidently, an “opposite” year in the market. Historically, the market sells off in the first quarter of a Presidential election year, then rallies, only to pullback right before the election, and then rally to finish the year. This year we saw no first quarter pullback, no pre-election pullback, but no major post election rally either. In fact, the market ended the year in the midst of a sell off.



S&P 500 2024 Chart Supplied by Trading View

Nevertheless, the S&P 500 finished 2024 with a price change of 23.31%. In any context, that represents a great year for making money in the stock market. And despite opposite year making macro calls tough, we had one of our best years ever managing money versus the market. Performance was, in the vast majority of instances, outstanding!

Heading into 2025, the markets are excited about the potential for tax cuts and deregulation. They also like the Fed being in the middle of a rate cutting cycle. This enthusiasm should lay a solid foundation for earnings growth in our economy.

However, at some point the market needs to take a breather. We are expecting a good first half of the year with the tough sledding for the markets coming in the 2nd half of the year. Happy New Year!



What the Market “Should” Do

Trying to figure out what the market “will” do is very difficult, but figuring out what it “should” do is a tad bit easier. And a lot of investors invest based on their own ideas of what the market “should” do. Of course, this is a must. If you do the research and have confidence, you must act on the facts and discoveries of your research.

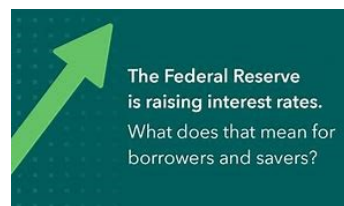
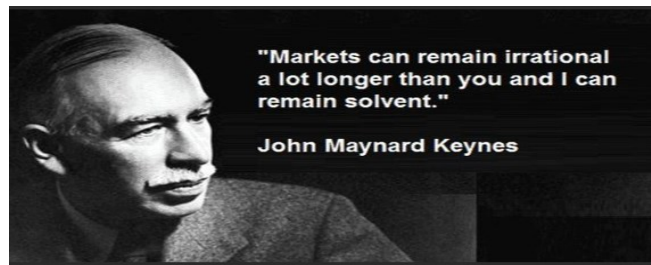
However, it is my opinion, that unless you have a firm grasp on the fact that human beings are the investors and/or capital suppliers in the market, you will rely too much on quantitative factors and brush over behavioral financial concepts. This mistake can cause a lot of red ink to flow on your portfolio’s statements. Yes, you may know what the market should do, but are you observing what it IS doing?

Quantitative and fundamental analysts from time to time are baffled and frustrated at the market and why it is doing what it is doing. Their models and frameworks suggest something totally different should be occurring. Remember John Maynard Keynes’ comments regarding this type of market behavior, “The market can remain irrational, a lot longer than you and I can remain solvent.”

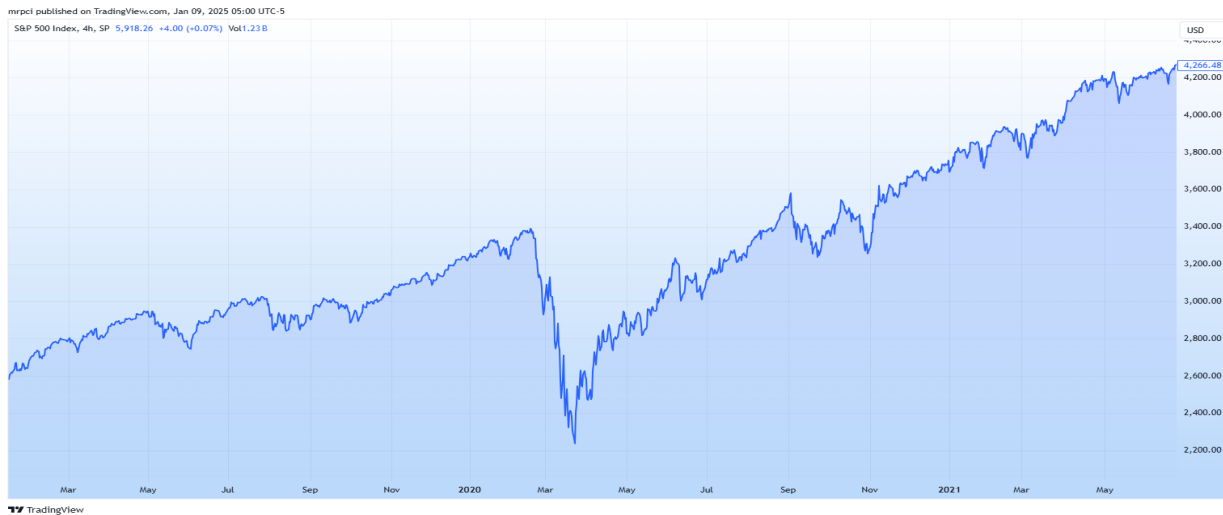
And that is just it, the “market” gets irrational because it is, at its most fundamental level, a gathering place for people to buy and sell. Any time people are involved in a competitive market, emotions flare from time to time. Greed and fear are the two that drive the capital markets. These two emotions push sell offs and rallies past where they “should” go. Thereby creating imbalances and, frankly, opportunities.

I strive to recognize when the market is going past where it should go and remember that at some point the fundamentals will reveal themselves to the masses and investor sentiment will switch. The sell off in 2022 is a good example of a market that went too far.

2022 was an emotionally driven sell off. I remember talking to clients about how the market kept pricing in the same pieces of bad news over and over and over again. Each time driving the market lower and lower...but it was based on the same piece of news. That is a behaviorally driven market. Investors hear bad news, they sell. They don’t logically process the fact that this piece of news has been in the market place for 2 months already and during that 2 months it has driven prices down 15% across the board. No. They hear some news that is scary and they panic sell.



In fact, 2020 was another emotional market. COVID broke out, the government shut down business globally, and stocks cratered,. Then the government came out and told people their plan to buy up as many assets as they could and backstop all the programs they could to ensure market prices didn't fall too far. On this news, the market exploded to the upside.



Fortunately, we were able to recognize what was happening in both of these incidences. In 2022, we probably saw what was occurring too quickly and had to endure the frustration of the repetitious re-pricing of bad news too many times. However, that recognition led to us being able to position our client's portfolios properly for the incoming 2023 and 2024 rallies.

Right now, I think we are beginning to see the ground work for an emotional market. We have been a tad bit spoiled with the returns in the market these last few years. And I am starting to see severe angst when the market sells off 3%. Pullbacks of this nature are not a big deal. In fact, they are simply the basic ups and downs that occur in a normally functioning and healthy market.

However, if investors begin to let their emotions take over when these small pullbacks occur then we could see the impact an emotionally driven sell off can have on a healthy market. And it really does look like our economy and markets are healthy. Employment is high, rates are historically low, earnings are good for corporations, and household net worths are at all time highs.

But even in healthy markets, like we have right now, emotions can drive markets. We could see a small and healthy pullback turn into a correction for no other reason than people get scared. Scared people panic selling can manifest upon itself and turn the entire mood of the market sour.

These are the times when well researched and diligent investors can make some serious money. If the economy and markets are healthy and a pullback that should have been 4% turns into a 15% selloff due to panicking investors, there are bound to be very good companies available for purchase at major discounts to fair value. And investing in those companies can lead to major gains when the market realizes that this sell off is overdone and investors begin to panic buy.



We bring this up in this newsletter because we feel there is a decent enough chance this type of selloff occurs fairly soon. If this were to take place, we are in position to protect the gains we made in 2024. But, of course, any sell off will pulldown asset values, but we are sitting on cash that can buffer the down turn and we can deploy into growth assets when we sense the bottom is in place.

More importantly, we hope that writing this article will give you peace of mind knowing that your portfolio is set up for this kind of downturn.

In the end, no one knows what is going to happen this quarter. But we are locked in on the markets and your portfolio. Hopefully, we can have as good of a year as we had in 2024. Regardless of what happens, we are ready for it!

Cryptocurrency Update

Last newsletter, we discussed each Presidential candidates outlook on bitcoin and crypto. Harris appeared to be less enthusiastic about crypto than Trump, but she certainly seemed to be ready to ensure legislation was in place so that everyone could understand how crypto could fit in their world. Trump on the other hand was talking about making the United States the dominant player in crypto on all levels. He wanted the United States to be the undisputed bitcoin champion of the world. With Trump winning the election, our title fights begin on January 21st.

Before embarking on Trump's odyssey to become crypto champion of the world, we will need legislative and governmental overhaul. Once these overhauls are complete the addition of governmental demand for bitcoin can drive its price higher. The short-term good news related to this longer-term demand story is that in 2023 the U.S. House of Representatives created a crypto subcommittee within the House Financial Service Committee. On top of that, the U.S Senate Banking Committee is laying the foundation to launch its crypto subcommittee. This sets the table for the legislative overhauls to get taken care of in a timely manner and usher in the governmental demand stage for bitcoin.



In 2024, the big driver for bitcoin was the introduction of institutional investors. Prior to the launch of the bitcoin spot exchange traded funds, many institutions could not invest in bitcoin due to the nature of their charters and investment policy statements. However, once the etf's hit the scene, these institutional investors helped make bitcoin the fastest growing etf's in history. That growth is showing no signs of slowing. In the final month of the year, etf's acquired 51,500 bitcoin. Given that only 13,850 bitcoins could be mined in December, the supply/demand imbalance continued and bitcoin ended the year up 122%.



2024 price chart of BTCUSD provided by Trading View

Moving into 2025, there appears to be some pretty obvious pockets of future demand for bitcoin. They are:

-**Financial advisors**-Only 22% of financial advisors are allocating crypto to their client's portfolios.

-**Corporate Treasury Adoption**-MicroStrategy (MSTR) was one of the first corporations to invest corporate assets into bitcoin. Given their company stock's price appreciation of 1,829.57% since then, other major corporations are looking into adding bitcoin into their approved corporate treasury assets. Word on the street is the Block/Square (SQ) will be the next one to make this shift.

-**Governmental Adoption**-If the U.S. gets their Strategic Bitcoin Reserve in place, there is no doubt in my mind that the rest of the world must do the same.

-**Tokenization**—Although not a pure bitcoin play, there are more than \$100 trillion in real world assets than can be tokenized. This would further cement crypto as common place in our economy.

There is a lot more we could discuss, but simply showing what we have should clearly demonstrate the potential for further demand of bitcoin and other crypto assets.



Non-Financial Events occurring this quarter



In a span of 5 days, Assad was overthrown in Syria, martial law was decreed in South Korea, and the French government faced a no-confidence vote.



The Los Angeles Dodgers won the World Series.



Donald Trump was elected President again.



Mike Tyson returned to the boxing ring.



Travis Hunter won the Heisman Trophy.

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