

# MRP CAPITAL INVESTMENTS, LLC

## Investment Thoughts

Research Report 2/11/2013

## Introduction

### *Inside this report:*

<i>Introduction</i>	<i>1</i>
<i>Themes</i>	<i>2</i>
<i>Current Themes</i>	<i>4</i>
<i>Interesting Themes</i>	<i>5</i>
<i>Specific Investments within Themes</i>	<i>6</i>
<i>Summary</i>	<i>10</i>

My investment process is a Top-Down meets Bottom-Up style. With a focus on Behavioral Finance being used on the Top-Down portion of the analysis and intense cash flow analysis supporting the Bottom-Up side of the equation. In my research reports, a lot of my published pieces are centered around the Top-Down aspects of the market. This is intentional. I believe that understanding the market's general direction can have massive implications on the overall returns of portfolios. Additionally, the macro-economic environment has been in such an historically interesting position for the last 5+ years, that a constant eye needed to be placed on it.

However, my work now suggests that we are entrenched in a Secular Bull Market. And, yes, I've been writing about that for quite some time. One of the main twists that my work has unveiled regarding Secular Bull Markets is the recurring Cyclical Bear Markets that occur within these longer-term cycles. Savvy investors can use these pull backs to enhance their long-term returns.

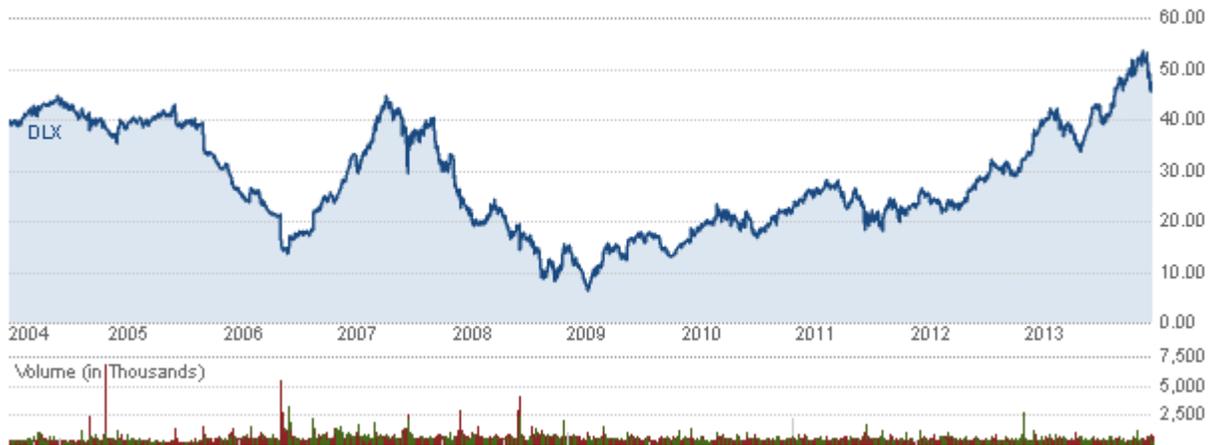
It is with this mindset that I am writing this report. That is, what are some areas that savvy investors should be keeping an eye on in regards to potential placement of investment dollars during our current market cycle.

Bear in mind, everyone has specific Investment Policy Statements that will dictate their investment actions. This report has nothing to do with specific investor recommendations. Rather it should serve as food for thought as people begin to construct their actual portfolios and make investments that adhere to their specific set of needs and objectives.



## Themes

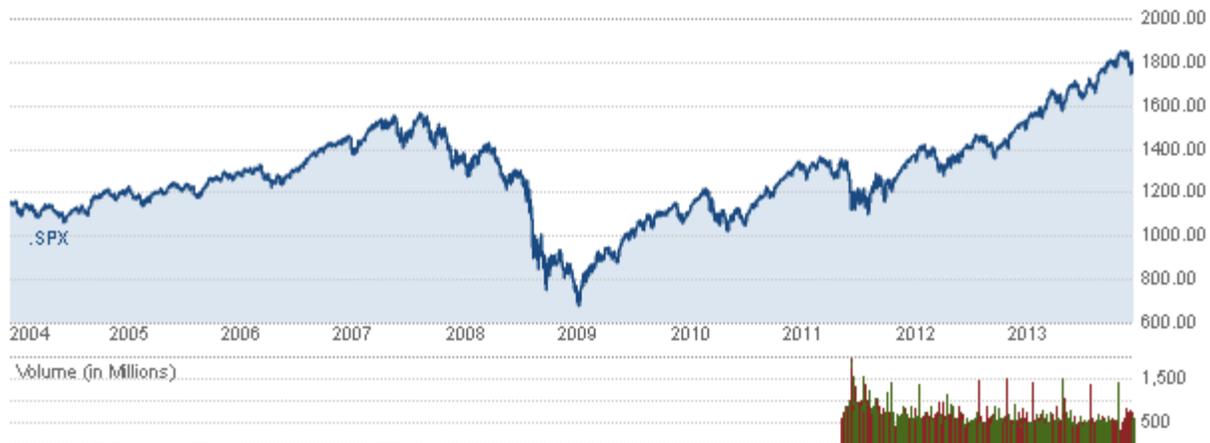
I'm a strong believer that, in addition to the financial statements and valuations being attractive, the overall theme in regards to an investment needs to be valid. For instance, a stock someone is considering buying may be cheap and have a strong balance sheet but if the business the company is in is a dying business, the stock will most likely not appreciate in price. An example of this is Deluxe.



10 year chart of Deluxe (DLX) supplied by CNBC

You see, Deluxe makes checks. With all the online bill payment services and credit card payment options, checks are becoming a less and less attractive business to be in. Despite Deluxe attempting to buy new business lines and diversify away from their core business, their stock was valued at \$38.99 in 2/26/2004 and was valued at \$45.84 at the close of business on 2/03/2014. That is a 17.57% return over a 10 year time frame (or 1.63% annualized rate of return over that time frame). Now, you did get a dividend of about 2% per year over the time frame and you could have tried to juice your returns by buying and selling at the highs and lows. But the point remains, this company's stock has, essentially gone nowhere for 10 years.

Meanwhile, even though the market has experienced some tough times as well, the S&P 500 went from 1,152 to 1,797 over that same time frame. Which equates to a price change of 55.99% (or 4.54% per year), which just about triples the return of Deluxe over that time frame and investors were paid, essentially, the same level of dividend.



10 year chart of S&P 500 supplied by CNBC

So, you can see that making an investment in the wrong business can have serious ramifications to your portfolio's overall health. But the inverse is true as well, if you can make an investment in the right sector...things can work out pretty well.

To use a stock which I've owned for clients, and personally, for a long time, let's look at Amazon. Over that same time frame, Amazon has appreciated 699%.



As you can see, being in the right spots within the market can have a huge impact on your returns as well.

Per my Top-Down analysis, this type of investing is of ultra-high importance in our current market environment. In my “Where are we Now?” report, which came out in November of last year, I discussed how stock picking (and/or sector selection) would become a very key driver of returns as the overall market’s place in time yielded only an average outlook for appreciation potential. The key to making above average returns in this environment will be effective security selection.

## Current Themes

There are a number of themes I’ve been investing in for clients for long-periods of time. Of the more recent themes I’ve been playing, I love the **cyber-space security** concept. It seems to me that everyday as I read through the news another hacker has made some kind of attack on a business or government. Not to mention all the times I’ve personally had some kind of cyber criminal try to hit my credit card or my computer with a virus. I simply see this problem getting worse and worse and worse. So if the supply of cyber criminals keeps increasing, then the demand for cyber-space security increases as well.



I also have investment positions in place regarding the **“spread playing” businesses**. What I mean by “spread plays” are business models that profit from low short-term rates and rising longer-term rates. I see short-term rates remaining low for a LONG period of time, while I see longer term rates rising modestly into the foreseeable future. If your business makes money off of this concept, then you should have smooth sailing for the foreseeable future.



## Interesting Themes

Additionally, there are some themes I am looking into and either beginning to make investments in or I am still kicking the tires. One of the most intriguing to me is the idea that businesses have kept a tight hold on the reins in regards to spending during the recent past, but at some point they are going to need to unleash **capital expenditures** to remain on the cutting edge of competitiveness. Within this theme, businesses that supply businesses with equipment and other “stuff” should see a boom in their revenues.



I also believe that the changes to the **marijuana** laws could open up some new markets for businesses to make some money.



And the proliferation of the **drones** for military, police, and commercial use has some interesting business potential, as well.



## Specific Investments within Themes

As I mentioned on the very first page of this report, the idea behind this report is NOT to make investment recommendations to people. To get that specific, a whole lot more information related to each person's Investment Policy Statement must be known. Rather these ideas are simply food for thought. They simply are something for people to consider and mull over.

With that here are some specific ideas within each theme that people might want to take a peak at:

### Cyberspace Security—

The thing that is most interesting about the players within this space is that they are ideal takeover targets. You see, all they need is some good technology...they don't really need overly robust sales channels. A big established tech company can buy them and use the acquired firm's technology to sell into the acquiring firm's already established and robust client base. This will accelerate the sales trends of the newly acquired technology. Furthermore, these companies, generally, have impeccable balance sheets.

#### Checkpoint Systems (CHKP)—



#### Fortinet (FTNT)—



**Spread Plays—**

Who plays spreads? Banks, investment firms, insurance companies, and most financial institutions.

**Bank of America (BAC)—**



**Federated Investors (FII)—**



**Annaly Capital (NLY)—**



## Capital Expenditures—

This category is VERY broad, but here are some ideas that can illustrate how deep the potential investment pool is within this idea's perimeter.

### Cemex (CX)—



### AMAT (AMAT)—



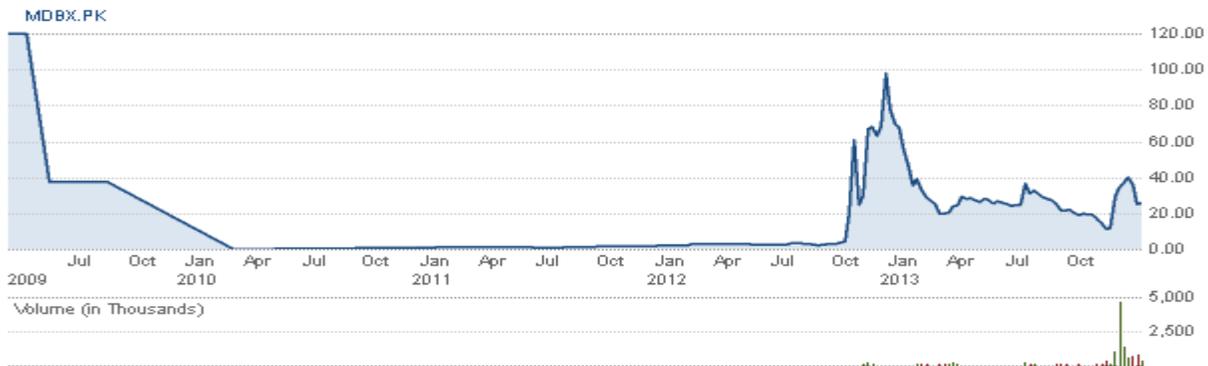
### Cummins (CMI)—



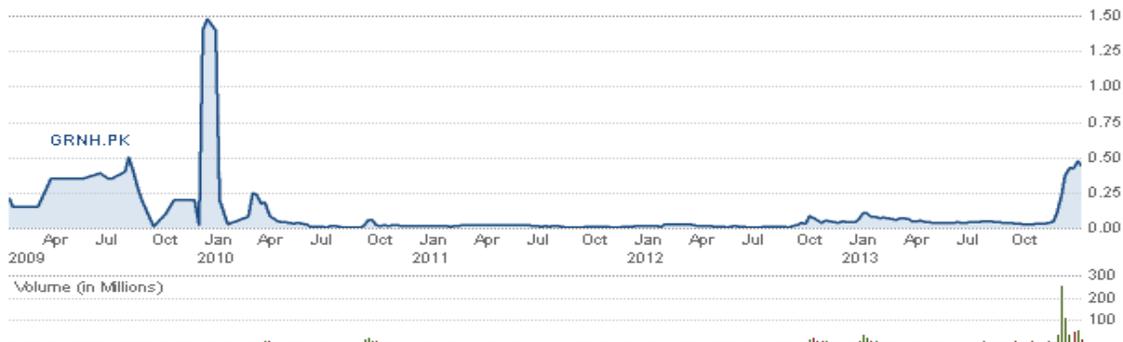
**Marijuana—**

Frankly, this one makes me laugh to even write about, but the business opportunity is for real.

**MedBox (MDBX)—**



**Greengro Technologies (GRNH)—**



**CannaVest (CNV)—**



## Drones—

Here are some beneficiaries from the proliferation of drones.

### Northrop Grumman (NOC)—



### L-3 Communications—



5 year charts of each company provided by CNBC.com

## Summary

Again, these ideas are simply food for thought and they are not specific recommendations for purchase. And I do not own all of these stocks for myself, or clients. But I, most certainly, do own some of them and I am considering some of the others for purchase.

Nevertheless, I do think that the stock market's current place in time does warrant wise security selection. I believe the "easy money" after the 2008 disaster is off the table and investment managers need to focus in on specific investments and their potential for appreciation to maximize profits.

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