MRP CAPTIAL INVESTMENTS, LLC

3rd Quarter 2015 Client Newsletter

Capital Market Update

Inside this report:

The 3rd quarter of 2015 saw a continuation of the volatility that has been the trend for the entire year. In fact, for the quarter the price of the S&P 500 dropped 6.94% and the peak to trough sell off in the quarter topped 12%. When you add this quarter to the rest of the year the S&P 500 price change is –6.75%.

S&P 500 YTD Chart Supplied by BigCharts.com

Certainly the global economic concerns have been weighing on all markets, including the U.S. markets. We've seen Greece have its troubles, then China, and now Russia is dropping bombs in the Middle East.

But when you rationally look at the market, we needed some kind of sell off to keep the valuations from getting totally out of hand. So, this sell off does improve the fundamentals of the market. But living through the gyrations can be nerve wracking.

Review and Future Thoughts

Prior to writing each newsletter, I take the time to review what I said in the previous quarter's newsletter. The biggest item I want to review from the last newsletter is the following excerpt from the "Markets and Volatility" piece. In that article, I said:

"...over the last 7 years or so, we have seen dramatic appreciation in our portfolios (at least the clients that have been with me during that time). Now, for sure, we have seen a lot of volatility during that time as well. But in that last 3 years or so, the markets have been pretty stable. But I have a feeling we are due for some higher levels of market fluctuations in the coming weeks and months.

Frankly, this is business as usual and is nothing new to me (or you guys). But, the last 3 years might have created a little bit of memory fog on how normal markets function. Sell offs of 3 to 5% happen a lot under normal circumstances and occasionally 10%+ sell off occur. We might see those kind of pullbacks in the future and we are ready to handle it within the portfolios. Of course, prices will fluctuate and losses will appear on statements from time to time. But if we keep our heads about us and make fundamentally sound decisions, we will be just fine. We simply need to keep up the effective communication."

I highlight those paragraphs because I feel that having an idea of what might happen, or what is happening, can have a huge impact on how decisions are made during times of stress. And make no mistake about it, volatile markets make for large amount of stress.

Nevertheless because we kept an eye on what might happen in the future, we had layers of defenses up in every portfolio prior to entering last quarter. Understand, of course, each person's tolerance for risk and goals has a direct impact on the amount of defense that was put in place. And further understand, that maneuvers during the quarter were made to enhance the defense and/or to try to tactically take advantage of market moves for profit purposes. And, again, the precise maneuvers differ for each individual's wants, needs, goals, and tolerances.

However the key point is that by trying to anticipate what the future would bring, enabled us to be prepared for the large amount of volatility we saw last quarter. Of course with the degree that assets sold off, we saw losses on our statements this quarter. But we did find some investment opportunities that should pay off for us in the long-term and, in fact, a few of our moves are already making us money; even during the market's fall.

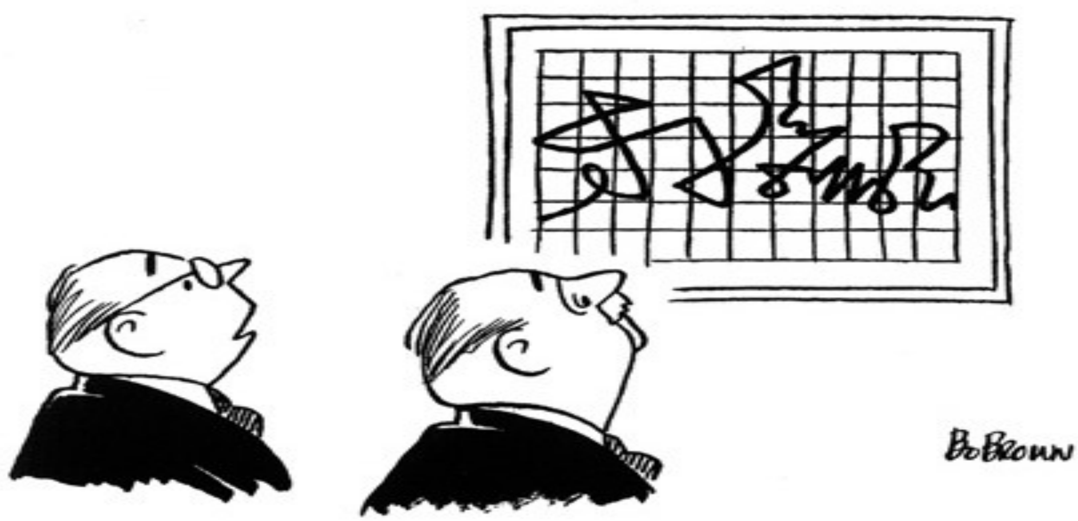
The two biggest areas that drew my interest during this sell off were:

#1—Companies whose biggest expense item is energy prices, particularly oil. You see, with the fall in oil prices these types of companies have an automatic boost to their earnings power even if revenues don't rise. And if you can find the type of company that may enjoy rising revenues, well then...you may have a long-term winner.

#2—Cyber-Security companies continue to attract me. In fact, I found one that had dropped significantly during this recent market sell off. And this was despite continued attractive fundamentals. Digging deeper, I believe I discovered the reason for the sell off was centered around the end of a lock up period associated with its initial public offering. Regardless what the reason was, I like the company and the price we got in at was very attractive per my models.

If we can continue to get our heads around the potential moves of the market and position our portfolios accordingly, we will be able to handle this volatility and be poised to make profits when this thing settles down. However, we must be mentally ready for the volatility. If not, snap judgements and emotional reactions can ruin a portfolio that has been carefully put together and positioned to succeed over the long-term, given each of your goals, objectives, and risk tolerance's.

And this is exactly the reason I've been writing about and telling you all that the markets could get wild in the near future. And that reason is to ensure we are prepped and ready to do what is necessary to endure the craziness and to tactically take the actions required during the craziness to be in position to benefit from it all when the markets settle down and normalize. And, to be frank, I feel we are all in a good spot right now.*



"Wow! There is a lot of volatility in the market right now"

*Note that on the "Portfolio Performance" page of this report I will detail where everyone's portfolio is right now.

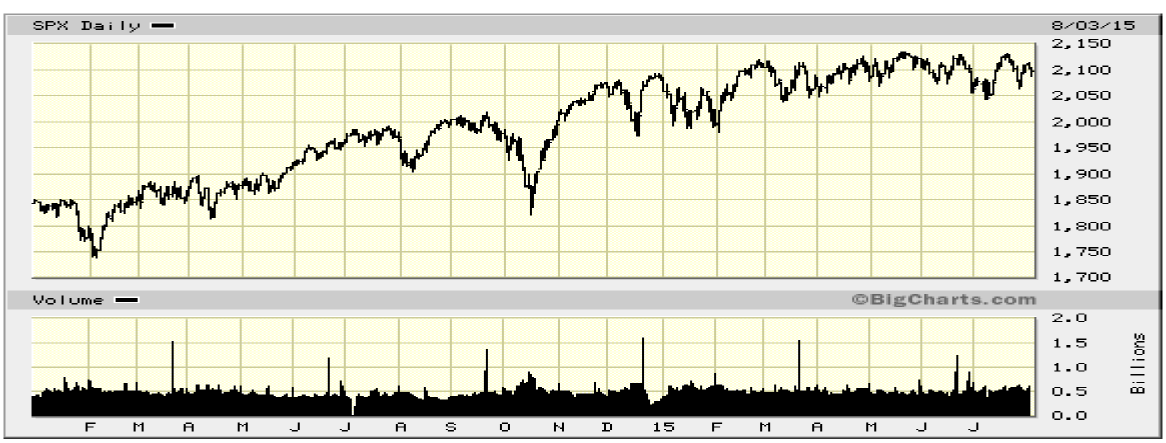
The Whipsaw!!!

In early August, I posted a research report on the MRP Capital Investments website (www.mrpci.com), entitled "The Whipsaw!!!". I see from the traffic that quite a few people have read it already. However, I did want to post the *Summary and Conclusion* section of that report in this newsletter as I know all clients receive this report. And I think this part of the report gives some really good insight into what is happening in our current market. Remember this was written about a month ago.

To review, it appears that there are a number of overhangs troubling the market. First, and foremost, is the concern over when the Federal Reserve will raise interest rates. Secondarily is the shock of low oil prices on the financial landscape. When you add these to the already murky picture which is clouded by high levels of government debt, questions regarding the leadership abilities of our elected officials, and the geo-political issues arising out of China's potentially faltering economy, you get a market with some real worries.

However when you review the long-term prospects, it does not appear that the classic signs of a market breakdown are in place. Earnings are not ahead of trend, complacency has not set into the market, consumers are still optimistic, and some measures of valuation appear attractive. BUT, some of the signs of a cyclical pullback are in place.

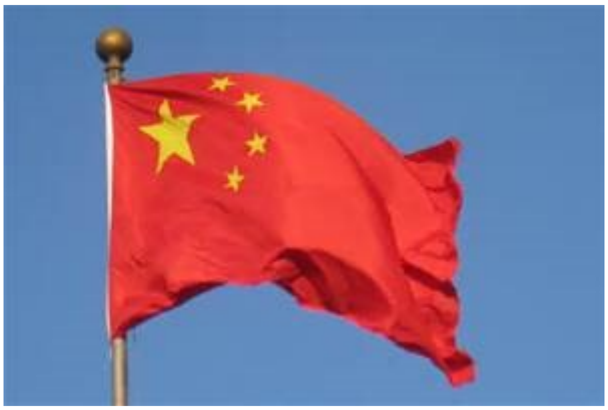
To assess the potential impact of a cyclical Bear, we can we can apply technical analysis to the S&P 500. You can see support for the market around the 2000 level. That would NOT measure as a formal pullback per my models, since that is only a 5% pullback from the market's highs. However if 2,000 is not held by the market, then 1850 appears to be the next stop. And that would equal a formal pullback as the drawdown from the S&P's highs to that level would be approximately 12%.



S&P 500 Chart from 01/01/2014—08/03/2015

Chart provided by BigCharts.com

Of course, if China's woes increase, the Middle East continues to flood oil into the market thereby driving the price lower, our Fed does raise rates at their September meeting, and earnings continue to falter, then the 1,850 level might not be the final resting place of the market.



As always, we will hope for the best and prepare for the worst. As mentioned earlier, there are usually some good buying opportunities even in the market selloffs. In fact, broad indiscriminate selling generally yields lots of oversold stocks. Since I've been a net seller in the market for quite some time, I should have everyone with ample firepower to take advantage of this sell off...should it arise.

Non-Financial Events occurring this quarter

US and Cuba re-established full diplomatic relations.

Donald Trump became the leading Republican candidate for the 2016 election.

Serena Williams fell just short of pulling off the calendar year grand slam in tennis.

The Pope visited the United States.

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