MRP CAPTIAL INVESTMENTS, LLC

4th Quarter 2016 Client Newsletter

Capital Market Update

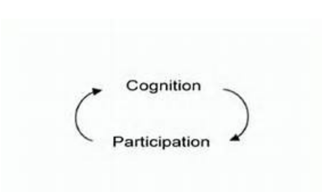
Inside this report:

I mentioned in the last newsletter that I thought the election results and earnings season could spell gains for the market and, HOLY COW, we got some gains!!! Since the election, the S&P 500 has shot up 4.64% on a price basis and that pushed the gains for the year to 9.54%.

S&P 500 2016 Chart Supplied by BigCharts.com

Obviously, the market won't just go straight up every single day for the entirety of the President-elect's tenure. However, I do feel the Animal Spirits have been awakened and there could be a very strong run for the market for the foreseeable future.

A MAJOR key for the market's will be if the "Buy on the Dips" mantra begins to take hold again. The last time that mindset ruled the day was in the 90s. And the late 90s saw 5 years in a row of 20% gains in the S&P 500. IF this type of thinking begins to take hold, I would expect a similar type of market reaction.



But, of course, time will tell and we need to watch for all signs and clues as to how things are actually turning out.

Happy New Year!!

Make The Markets Great Again!

What a SHOCKING election!!! But more shocking than the election itself was the stock market's reaction to it. There have been many stories of famous hedge fund managers who absolutely nailed their call on the election, as they KNEW Trump would win. But they got KILLED in the market, as they thought the market would tank.

With the exception of an overnight Futures market sell-off on the evening of the election itself, there hasn't been a pullback at all. In fact, you could say the market has been sky-rocketing. Interestingly, on November 10th I put a post up on my website (www.mrpci.com) in the "Capital Market Notes" section under the "Market Thoughts" tab. It was entitled "Animal Spirits" and here it is in its entirety:

Animal Spirits---11/10/2016

For the first time in a LONG time, I feel the Animal Spirits awakening in the markets.

If you aren't aware of the term, it comes from John Maynard Keynes' work. Here is a quote,

"Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of ***animal spirits****—a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities"*

Like is outlined above, this isn't derived from the mathematical models that I use. It is simply a gut feel. I think it is linked to Trump winning the Presidency and the Republicans having control of the House, the Senate, and having a pick to fill the Supreme Court. Add this to Trump's stated plans to reduce corporate taxes, reduce restrictions/regulations, and bring back overseas capital stashes and I think you can see why the Animal Spirits of Capitalism are beginning to stir.

Time will tell if I am right on this one, but I sure feel the pull of optimism regarding business right now.

So far, since election night, it appears that market participants are ignoring the negative aspects of Trump's economic policies and are focusing on the positive aspects. As I see it, those positive aspects are:

-Corporate Tax Reduction

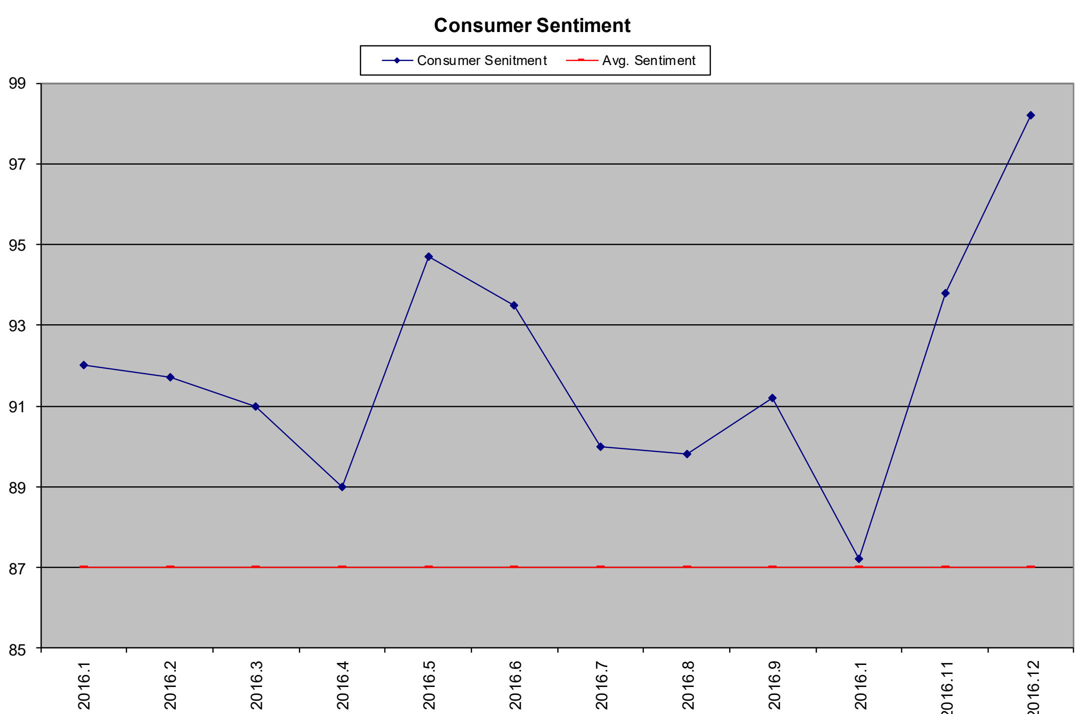
-Personal Tax Reduction and Reform

-Repeal and Replace the Affordable Care Act

-Reduce Business Regulations

-Repatriate Overseas Corporate Profits

These Animal Spirits are being further stoked by Trump's cabinet picks, which appear to be very business friendly. And what is really interesting is that you can see graphic evidence of what these Animal Spirits look like in the mood of the US Consumer. To that point, here is a chart of the University of Michigan Consumer Sentiment Index throughout 2016.



U Of M Consumer Sentiment Index from 1/1/2016-12/31/2016

As a professional investor, I am very excited about all of these picks and embrace the economic concepts. However, I know the market fundamentals were in place for a rally regardless of who won the election. I do, indeed, think Trump's policies will throw gasoline on the fires of economic expansion and, therefore, profits.

In regards to the market fundamentals I referenced, I highlighted what I saw happening in the market on my website in the "Capital Markets Notes" section. And I think they are important enough to mention again.

Here is that post:

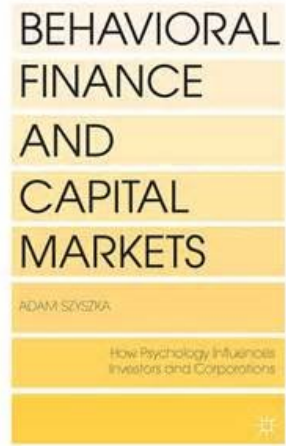
Potential for Massive Upside--6/2/2016

As I mentioned in my last note, given the amount of people under-weight equities, there is a Bearish Vibe in the market. And, as I discussed, this can set the stage for a major rally if good news hits the markets. Why? Well, the people under-weight stocks will need to get back in the market to take advantage of this good news. But since they are so under-weight, the buying will be BIG as they not only need to buy enough to get to equal-weight they also need to buy more than that to go over-weight and beat the market to the upside. (side note: in the week and a half since I posted that update, the S&P 500 has already moved up a little over 2.6%)

Well, there is another POTENTIAL big catalyst for upside stock market movement. Art Laffer pointed it out today on Fox News as he mentioned that Larry Kudlow and Stephen Moore are working with Trump to advise on economic policies. He mentioned that if Trump wins, there is a possibility that he and his team could cut the corporate tax rate to 15%, repeal Obamacare AND Dodd-Frank.

It is my opinion, and Mr. Laffer's as well, that if these things are done, the U.S. stock market might see some very serious buying as the boost to companies bottom lines from these moves could be HUGE, as Mr. Trump might say.

The concept of people being under-weight equities is a very important technical fundamental to follow. In fact, it forms the basis of my Behavioral Finance based approach to looking at the markets. It might sound complicated, but it really isn't. I'll try to explain it really quickly.



If everyone knows that a certain investment is "bad", they will want to sell it. At some point everyone who wants to sell, will have sold. That is, they will be completely out of that "bad" investment. Over the course of their selling, the price will naturally fall (supply and demand dictates that when you have more sellers than buyers prices will fall).

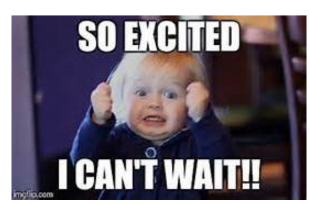
Once all the sellers are out, bad news won't have a huge impact on the price of the asset as there is no one left to sell; everyone is already out.

BUT if good news hits that asset then the buying pressure will send the price skyrocketing, since there will be no selling pressure (remember there is no one left to sell) to offset the immense buying inspired by the good news.

This type of thinking and market action is what inspired Baron Rothschild to say "Buy when there is blood in the streets, even if it is your own" in 1871.

Of course, the inverse is true as well. "Good" investments will be bid up by the buyers and before too long everyone who wants to own that asset will own it and the risk is bad news coming out and tanking the price.

Anyway, I hope that makes sense...as it is a very important concept to master as an investor. But, regardless, that is what I saw happening in the market a few months back. Bad news was being fully priced in and expecting anything good to happen was considered foolish. Typically, this is when I get excited as an investor.



To be frank, the next step in our market's progression, according to my models, is the climax of the Boom Phase. This phase ends in an overheat type of situation that I call a Bust. However, the transition from Boom to Bust takes years. So if things progress as my model predicts, we could be in for some VERY good times in the markets over the coming years.

Some fun things to watch to gather clues to how this Boom is progressing include President Trump's team's attempts for fiscal stimulus (tax cuts and infrastructure projects). This will be particularly important as we still have an accommodative Fed. This COULD create an immense of amount of jobs, capital flows, and industrial projects.

And these are the exact things that could lead us to the overheat part of the Boom, if we get inflationary pressure building in the coming years.

One way to track how close we are to the end of the Boom Phase is to track The University of Michigan Consumer Sentiment Index. Here's a chart of Consumer Sentiment, since the introduction of the measure in the 1950s.

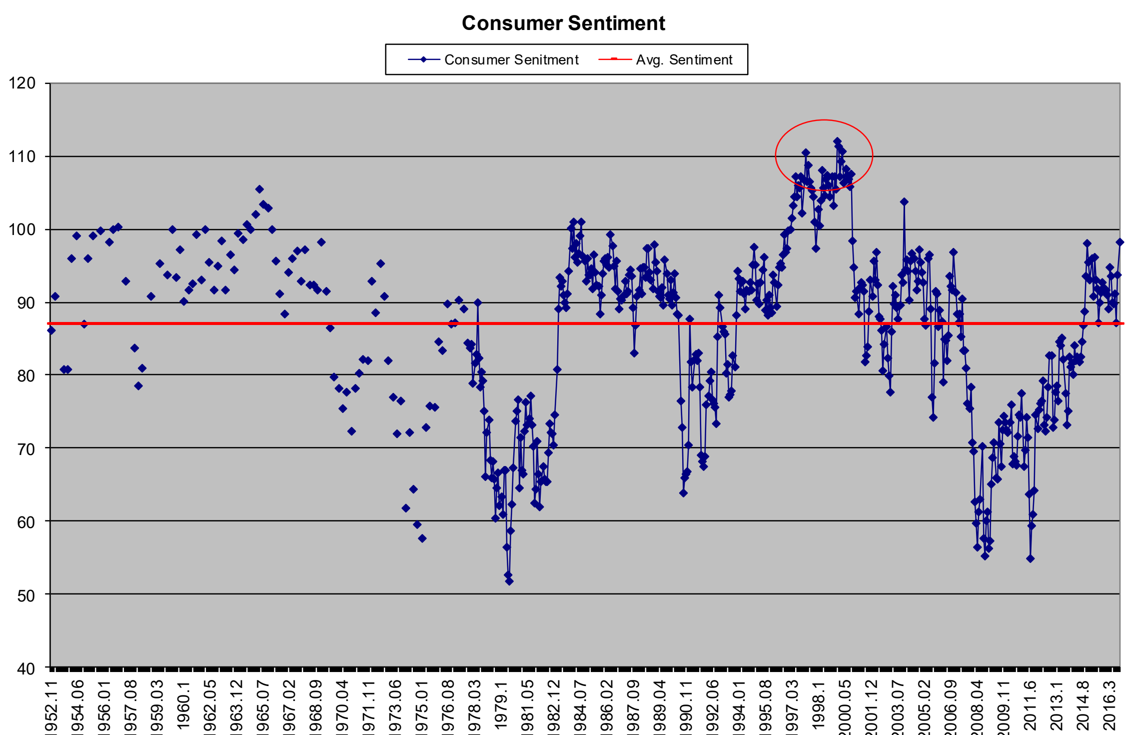


Chart Supplied by the MRPCI Database

When you examine the chart, note the area I highlighted with a red circle. That shows the peak readings of the Index, which equates to people feeling as positive as they ever have been in recorded history about the economy and their financial situation. Not coincidently, that also equated to the peak of the 1990s Bull Market.

I feel it is vital to track this measure because I believe the more exuberant people are about the economy, the more likely they are to invest in the market. The data tells me that it is not only important for the Index to register a high reading to call the top of a market, but it must register a high reading for a lengthy period of time. Why? You must give people ample time to get fully invested. Remember my early comments about if everyone buys a specific asset, then there are no more buyers left because everyone already owns it? This is that concept clearly illustrated with actual economic data.

Looking at where we are now, it appears we have quite a bit of room to the upside to run in terms of economic euphoria. That should equate to quite a bit of room left to run for this Bull Market. But, we must track this and begin to pare back our equity exposure when this Index tells us that everyone is fully invested in the market.

Again, it should take years for this to materialize. But it will be fun to track, nevertheless.

2016 Interesting Stocks

I want to take a moment and have some fun talking about some investments we had in play in 2016. I want to focus on some interesting stocks, some winning stocks, and some fun stocks. I want to do this because 2016 was a tough one for investors. Now, as you'll note, our returns were pretty darn good, but we **earned** every dime of those returns.

As I noted in the 2016-Year Ahead research report, I thought it would be volatile year that would cause a great deal of stress. Frankly, I hope you didn't feel the stress. But, without a doubt, I did!!! Heading in I KNEW it was going to be brutally volatile, but I also KNEW when the election was over the stage would be set for gains. So, I had to battle the markets day in and day out to set portfolios up for the year-end gains. And, by God, I freakin' did it!!!! So, I'm going to have a bit of fun with this article.

The first one I want to talk about is the **Atlanta Braves**. For most everyone, we've been long term holders of Liberty Media. I started buying Liberty back when Sirius Satellite Radio common stock was in the toilet. Why? I wanted to own Sirius because I thought long-term they were a company with staying power. However they had so much debt, I thought they might file bankruptcy and restructure first. So, I didn't want the common stock. Rather I wanted the bonds because in a restructuring the bond holders are generally converted to common stock holders and that is what I wanted to own.

With this in mind, I went looking for Sirius bonds to buy. However, I couldn't find any. It appeared that John Malone and Liberty Media had a stranglehold on Sirius via a huge investment and a massive position in Sirius bonds. So I could buy Liberty Media (a conglomerate media holding company) to get the access to Sirius stock, which I did in 2013.

Low and behold, in April of 2016, Liberty Media spun out its exposure to Sirius Satellite in a tracking stock, Liberty SiriusXM (LSXMA). Across the board, we are up about quite nicely on that position.

However, Liberty also spun out its holding in the Atlanta Braves which they acquired when they bought into Time Warner. When they did this, they also restructured their share class for the “main” Liberty Media shares too. They spun it out in a way that makes the cost basis look weird (applying low basis to Liberty Media and high basis to the Braves), but, nevertheless, our total value of the Liberty Holdings increased by about 25% overnight when all the dusted settled.

Interestingly enough, just prior to this spin off of the Braves, Forbes put out an article listing their assumed value of Major League Baseball teams. The value the market was putting on our Braves position was VERY low compared to the Forbes analysis. Remembering in the past that I’d seen baseball teams change hands at much higher prices than previous Forbes listing, I became interested in buying more Braves shares. I did and we also got warrants due to the spin off from Liberty to buy even more Braves shares at $12.8/share, which we took advantage of.

Long story short, the price of the Braves K shares (BATRK acquired via warrants) were trading at $19.87 as of the end of the year So, not only has it been cool to own a professional baseball team...but we are also making good money on this relatively small, but fun, position.

BATRK Shares from 5/1/2016—12/31/2016

Chart Supplied by BigCharts.com

Another investment that is very interesting is Fannie Mae (FNMA). I'll try to be brief, because a few years back I wrote a detailed research report on my thinking behind Fannie (which I can forward to anyone, if they don't still have their copy).

Long story short, the government bailed them out and is currently acting as Conservator of the company. Oh yeah, the government is also currently taking ALL their profits and funding other government projects with them. Needless to say, this is NOT what a Conservator is supposed to do and, as you would guess, there are many lawsuits protesting this "illegal taking."

But, regardless, Fannie is profitable to the tune of over $10 billion dollars per year and, at the beginning of the year, had a market cap of a little over $1 billion. Yes, that is a CRAZY low P/E ratio. Hence, my interest (along with the back story).

Of note, the incoming Treasury Secretary Steve Mnuchin said on Fox News that he wants to get Fannie out of Conservatorship and back in the public's hands soon after he takes office. That day the shares went skyrocketing and, as of the end of the year, the shares were trading at $3.90/share. This represents a 138% gain for the year. Yes, lots of risk...but lots of potential reward.

FNMA stock chart from 01/01/2016—12/31/2016

Chart Supplied by BigCharts.com

Two other fun ones are JP Morgan and Bank of America. If you remember in last quarter's newsletter, I noted these two stocks specifically. I said they hadn't gone anywhere this year but they were cheap with good earnings growth prospects heading forward. And then after Trump was elected, BOOM!, they were off to the races.

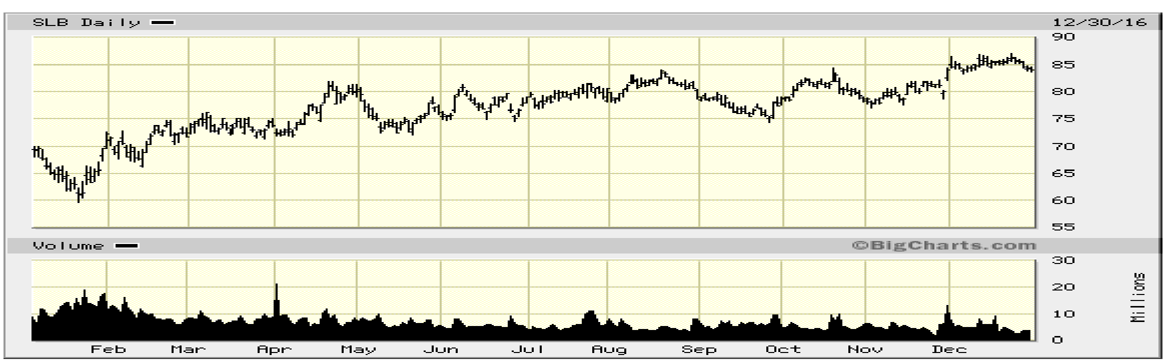
2016 Chart for JPM

Chart Supplied by BigCharts.com

2016 Chart for BAC

Chart Supplied by BigCharts.com

Last one; Schlumberger. Remember earlier this year (2016), when the market was falling apart because the price of oil was tanking? Yes, that was THIS year. Well...when that kind of stuff happens, opportunities can be created. Schlumberger, an oilfield services company, seemed to me to be oversold in that crisis, so I bought some shares for most everyone. And what do you know, that stock has rallied 40% from its low created in that crisis.



SLB stock chart from 01/01/2016—12/31/2016

Chart Supplied by BigCharts.com

Thanks for indulging me. It was certainly a year I'll never forget!!!

Tribute

It is with a very heavy heart that I write this article. In late 2016, a dear friend and client of mine passed away. I had the good fortune to know and work with this man, and his wife, for many years. Nevertheless, thinking of his passing makes me extremely sad. I would like to take a moment and pay tribute to them and celebrate their memory and the impact they made on my life.

Our paths crossed in the late 90s during my time at Merrill Lynch. Bill was a retired Coca-Cola man and, to say the least, he was well rewarded for his time and effort at the company. Phyllis, in her own right, had a very solid financial foundation. I remember her pulling out actual stock certificates of Standard Oil company. They were early investors in Home Depot and, of course, Coca-Cola.

On the business front, we put together a well-diversified portfolio. Not only did that portfolio protect them during the early 2000s Internet Bubble bursting, but it also prospered in the Bull Market that followed. We hung tough during the Financial Crisis of 2008 and really rallied throughout this latest Bull Market run.

I'll never forget how sad Bill was when Phyllis passed away from an unexpected fight with cancer. It came out of the blue and just like that Bill was spending all of his time at the hospice facility with her. I supposed it was a "good" thing that she didn't struggle for years with cancer, but it was still heartbreaking.

Again, on the business front, we had dotted all the I's and crossed the T's and the estate plan was buttoned up before these events hit them. But you are never really prepared for something like that when it actually happens...at least on an emotional level.

But Bill went on and did his best. Frankly, our meetings were never quite the same and Phyllis' presence was missed. In fact, we always referred to her assets/Trust account as Phyllis' account.

Over the last few months before Bill's passing, he sold his house and moved into an assist living facility. I helped him sort through some of the financial issues associated with that move and we mutually decided what he could "afford". And as the day of his death crept closer, I knew he wasn't doing well. I kept in touch as much as I thought was practical given his health. I didn't want to be a bother, but also wanted him to know someone was thinking of him.

Due to his failing health, getting the news of his passing wasn't shocking. He had lived a full and happy life, so there wasn't any regret or sorrow on that front. I am just sad, and will be for the rest of my life, that I won't be able to see or chat with a good friend of mine.

Non-Financial Events occurring this quarter

Kellyanne Conway became the first female Campaign Manager to orchestrate a successful Presidential run.

The Chicago Cubs won the World Series!!!

Fidel Castro, the brutal Cuban dictator, passed away.

A few days before Christmas, a terror attack was launched at a Christian gathering spot in Germany.

Alan Horujko single handedly stopped a terror attack at The Ohio State University campus.

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