

MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

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Dear Clients and Friends:

The performance of the markets for the three month period ended March 31st provided a frustrating encore to calendar year 2000 -- which already was in the books as the worst year for the stock market in a decade:

	First Quarter <u>2001</u>	Calendar <u>Year 2000</u>
Dow Jones Industrial Average	-8.0%	-6.18%
S&P 500 Index	-12.0%	-10.14%
Nasdaq Composite Index	-25.5%	-39.29%

The sell-off is largely attributable to the need to deplete the excess inventory of goods and services that had been built up throughout the economy on the erroneous expectation that the speculative dot-com Internet bubble that burst last year was going to last indefinitely. In effect, the economy has taken a breather. And while it digests the excess inventory of everything from computer chips to networking equipment to advertising space, the production of new goods and demand for services has been curtailed, resulting in the economy's dramatic slowdown. The statisticians have not yet determined whether we are officially in a recession¹. However, there is no question that annual growth has slowed from 5% to perhaps as low as 1%, creating a *de facto* feeling of recession. The combination has caused many investors to flee the markets, leaving the Dow and S&P 500 down roughly 20% from their highs, and chopping more than 50% off the NASDAQ composite index.

Two and a half years ago, in the third quarter of 1998, investment markets worldwide were sagging under the combined weight of the Asian crisis, the Russian government bond default, the collapse of the ruble and the near-collapse of the Long Term Capital Management hedge fund. U.S. markets were down close to 20%, and we were attending a conference at which a well-known mutual fund manager with a stellar track record, whose fund had declined 25%, was asked pointed questions about his performance and strategy in light of the extreme

¹The technical definition of a recession is two consecutive calendar quarters of economic contraction. As it is impossible to determine whether we are in a recession until the necessary economic data has been analyzed, and as it takes months to do so, it is possible to have been in and out of a recession before it can "officially" be declared.

pessimism pervading the markets. The manager answered by saying how much he admired the pessimists -- they have an unlimited supply of theories and historical data that conclusively prove their theses about impending stock market doom. But, he continued, "it is the *optimists* who make money."²

At MJB Asset Management, we remain optimists. We purchase top quality companies at reasonable prices, waiting for the price of a stock to drop by at least 40% from its most recent high before buying it. Since MJB's founding in 1997, the U.S. markets have dropped by 20% or more at least four times, including the third quarter of 1998 mentioned above. Each time, we have added to our holdings of blue chip stocks trading at substantial discounts to their high prices, providing us with substantial opportunities to generate long term investment gains. We believe the current market environment is providing us with similar opportunities. And so, as in past market declines, we have been net buyers of individual equities and equity mutual funds for our clients over the past few months, laying the groundwork for future investment gains.

For MJB clients with individual equities in their portfolios, we established new positions in General Electric, American Express and Procter & Gamble. We also added to our position in Intel. The prices of all four companies' stocks had declined by 40% or more from their most recent highs, giving us the chance to buy at significant discounts. Given the current economic environment of slow growth and potentially fierce price competition, we believe it is important to own companies with strong brand name products and dominant positions in their respective markets. All four of the companies we purchased meet that requirement. In addition, we expect interest rates to fall significantly as the Federal reserve seeks to re-invigorate the economy.³ Declining interest rates translate into lower costs for companies that borrow money and increased demand for companies that lend money -- e.g., banks, credit card companies and finance companies. Both American Express (which lends money through its well-known credit card operations) and General Electric (which sells large ticket industrial items on credit and also lends money through its enormous finance company, GE Capital Corp.) should benefit from the falling interest rate environment. We did not sell any individual equities during the quarter.

For clients with mutual funds, we have been cautiously adding to equity fund positions throughout the current market downturn. Most of the recent additions have been to so-called "value" funds that invest in undervalued, out-of-favor stocks at bargain prices, e.g., Excelsior Value and Restructuring Fund, Oakmark Select Fund, Thornburg Value Fund and Third Avenue Small Cap Value Fund. We believe that current market conditions during the first quarter favored the comparatively conservative style of value managers over the more aggressive "growth" managers who tend to invest in more volatile stocks in the technology, retail and healthcare sectors. However, we also believe -- and experience has borne this out -- that no single "best" investment style exists to the exclusion of all others. It is possible to make money using value styles and growth styles, as well as a whole host of styles that fall somewhere in between value and growth. Our mission in this regard is simple: find the best managers in the business -- regardless of their investing style -- and make certain our clients have positions in those managers' funds. The skill of each manager at executing their respective investment styles

² From October 1998 through March 2001, that manager's fund outperformed the S&P 500 Index.

³ At the time of this writing, the Fed has lowered interest rates by an additional 50 basis points.

April 20, 2001

Page 3

is far more important over the long term than whether their style is value or growth. As such, we will continue to maintain a variety of investment styles, implemented by top notch managers, in our clients' mutual fund portfolios.

At MJB Asset Management, we personally own all of the individual securities and mutual funds that we recommend for our clients' portfolios. As fellow investors, we know these have been trying times in the markets, particularly for more recent investors. At times it has felt as if the market would never stop falling, with the wait for a rebound seeming interminable. At times such as these, we are even more confident that optimists will rule the day, and we look forward to future investing on our clients' behalf.

Thank you for your investing with MJB Asset Management.

Sincerely,

Richard Bregman