

MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

July 27, 2001

Dear Clients and Friends:

For the three-month period ended June 30th, the major U.S. stock market indices increased in value:

	2nd Quarter	Year to Date
	<u>2001</u>	<u>2001</u>
Dow Jones Industrial Average	6.31%	-2.64%
S&P 500 Index	5.85%	- 6.70%
Nasdaq Composite Index	17.50%	-12.47%

The upturn marked the first time in more than a year that all three indices recorded gains in the same quarter, and reflected investor sentiment that a nascent economic recovery might be taking hold. Certainly, much of the framework is in place. The Federal Reserve has lowered short-term interest rates six times this year, reducing corporate borrowing costs. Energy prices have leveled off and started to decline. Industrial companies from automakers to semiconductor manufacturers have reduced excess inventories. Corporate purchasing managers are planning increases in capital spending budgets for the upcoming year. Inflation remains low, and the government's index of leading economic indicators has increased for the past several months.

But at the same time, businesses are still reporting poor earnings; companies are cutting jobs; new job growth has slowed; consumer interest rates on mortgages and credit cards remain high; and the stock market is still down 20% from its highs, having returned to 1998 levels.

Is the glass half empty or half full? Welcome to the "new economy-style" slowdown. Unlike past slowdowns, which started with cutbacks in consumer spending that led to cutbacks in business production and jobs, the current slowdown started with cutbacks in corporate spending in the wake of the "new economy" meltdown. Failed dot.com and telecom companies literally ran out of cash and could no longer buy equipment or pay employees. Larger technology companies -- which had produced the goods to meet the seemingly insatiable demand for equipment -- were left with enormous unsold inventories, poor earnings and the need to cut

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back production. The damage, initially confined to Internet startups and related companies, began to spread, with the demise of the dot.coms leading to declines in demand for a broad array of business services and supplies. More and more corporations, both inside and outside of the technology sector, have reported sales declines and poor earnings. Having reduced inventories and cut capital expenses, firms have now begun to lay off personnel. And so, while businesses have worked off their excesses from the Internet bubble and are now positioned for a return to growth, the increase in demand for goods and services to fuel that growth might not materialize because the effects of the slowdown are beginning to reach the consumer. As such, the near term answer to whether the glass is half empty or half full appears to hinge on aggregate consumer spending patterns over the upcoming months.

At MJB Asset Management, we take a longer-term view and see the glass as decidedly half full. Though we are not able to predict the ending date of this slowdown, we are able to see that the fundamentals for a return to growth are in place, including lower interest rates, declining energy prices and ongoing innovation in technology and medicine. At the same time, the current uncertainty in the markets is creating investment opportunities. We invest side by side with our clients, purchasing blue chip stocks selling at prices 40% or more below their all time highs. When a stock meets our 40% off criteria, we analyze the company's financial health and competitive position to determine whether the stock is likely to appreciate given current and anticipated future economic conditions. If our analysis indicates a likelihood that the stock will appreciate, we consider adding it to our portfolios. If a stock already is in our portfolio and our analysis does not indicate potential for further price appreciation, we sell or reduce our positions.

The prices of many quality stocks have come down to attractive levels over the past few months. We have broadened our portfolios by adding cyclical and interest rate sensitive holdings such as General Electric, American Express and Ford Motor Company. The price of Ford common stock dropped sharply on investors' fears that the company's decision to replace the tires on all of its Explorer sport utility vehicles would have devastating financial implications. We took the opportunity to purchase shares at a price more than 60% below their all time high. Ford has more than \$16 billion of cash on hand, which will more than cover the expense it expects to incur in replacing the tires on all of its Explorers. In addition, Ford should benefit from lower interest rates and gasoline prices, as well as an improved and very well received European product line that has begun to make inroads against the large European car manufactures. And the company has eliminated its backlog of unsold inventory, which means its production schedule is in line with current demand for its cars. Although Ford could be affected by a slowdown in consumer spending, we believe the price at which we bought its stock provides us with a margin of safety against a downturn.

Given recent increases in unemployment and the uncertainty over aggregate consumer spending, we have been trimming positions in companies that we consider most vulnerable to a slowdown in consumer purchases, including Coca-Cola, McDonalds, Gillette and Wal-Mart. For the same reason, we increased our position in pharmaceutical company Merck & Co., whose profitability is less affected by changes in consumer spending and whose stock price was artificially depressed after announcing that sales of one of its major prescription drugs had been lower than expected.

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For clients with mutual funds, we continued to add to so-called "value" funds that invest in undervalued, out-of-favor stocks at bargain prices. Mutual funds tend to be style-specific, i.e., they are constrained by their investment charter to invest in a certain type of stock or follow a certain type of investment process. As investment managers using mutual funds, we must decide which fund styles will most likely produce profitable results at any point in time. For example, in 1999 and early 2000, investment markets favored the so-called "growth" and "momentum" styles of investing in stocks of rapidly growing technology, healthcare and retail companies. But in the months since March 2000, the pendulum has swung from growth to value. We believe the shift has farther to go, hence our decision to overweight value funds at this time. Nevertheless, many of the stocks that are positioned to benefit from an economic recovery are staples of "growth" funds. And so we continue to maintain a variety of investment styles in client portfolios. Intelligent, skilled and disciplined money managers will generate superior investment returns over time regardless of their investing style.

Thank you for investing with MJB Asset Management. We hope you are having an enjoyable summer and we look forward to speaking with you about your portfolios.

Sincerely,

Richard Bregman