

# MJB ASSET MANAGEMENT LLC

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## MEMORANDUM

Date: January 31, 2002  
To: Davis & Gilbert Retirement Plan Participants  
From: Richard Bregman  
Re: D&G Retirement Plan – 4th Quarter 2002 Fund Performance and Commentary

Given the market's behavior in 2001, it came as no surprise: while drafting this memo, a computer blip momentarily distorted my screen, and I briefly found myself viewing the letter "t" as an "h." The result: the phrase "major *stock* indices" became "major *shock* indices." Indeed. Last year was the second consecutive year in which most major stock indices dropped in value. Although the markets rallied in the fourth quarter, the rebound could not erase the declines that started with the Internet bubble bursting in 2000, continued with the recession that took hold in 2001 and culminated with the worldwide stock market sell-off following September 11<sup>th</sup>:

	4 <sup>th</sup> Quarter	Calendar Year
	<u>2002</u>	<u>2001</u>
Dow Jones Industrial Average	13.1%	-5.4%
S&P 500 Index	10.7%	-11.9%
Nasdaq Composite Index	30.1%	-21.1%

The U.S. economy continues to work its way through a recession, and economic signals now suggest we are closer to the recession's end than its beginning.<sup>1</sup> The rate of layoffs has decreased, consumer confidence has increased, personal spending is holding up fairly well, interest rates have remained low and most industries have reduced or written off their excess inventories – all of which sets the stage for businesses to begin producing new goods and services and invest in the plant and equipment needed for such production. We are not yet out of the woods, as people are still losing jobs, corporate earnings are still weak and capital expenditures are still low. But the framework for recovery is in place, and the anticipation of a recovery is what fueled the fourth quarter rally.

For the Davis & Gilbert Retirement Plan menu, the markets favored “value” oriented mutual funds in calendar year 2001. Most mutual funds specialize in “value” investing or “growth” investing. “Value” funds purchase stock in out-of-favor companies that are selling for prices substantially below each company's intrinsic value. The managers hold the stocks until

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<sup>1</sup> Though recessions are economic events, the quest to define their beginnings and ends has left us dependent on statistical techniques to advise us, months after the fact, that the current recession officially “started” in March 2001.

the rest of the market awakens and bids the prices back up to fair value – at which point the fund managers sell for a substantial gain. Because the stocks are bought *after* they have gone down in price, value investing tends to be less volatile than other investment styles and tends to provide a cushion in down markets. "Growth" funds purchase stocks in companies that have growing earnings, sales and/or revenues, typically in industries known for innovation and/or new concepts, such as technology, healthcare and retail. Fund managers frequently pay premium prices for the growth potential in such stocks. As a result, growth investing tends to be more volatile than other styles, for any slowdown in earnings or revenue growth can turn today's growth darling into tomorrow's disaster.<sup>2</sup> Growth investing tends to do well in rising markets but offers little comfort in down markets, as the fortunes of growth companies are tied very closely to the ups and downs of the economy. And so, for example, growth funds have not done very well throughout the current economic slowdown; however, they outperformed during the fourth quarter rally, which was based on the anticipated resumption of economic growth (although all funds did well for that period).

The contrast between the returns for value funds and growth funds during the fourth quarter and the year is reflected in the following table for the funds in the Davis & Gilbert Plan:

	4 <sup>th</sup> Quarter <u>2001</u>	Calendar Year <u>2001</u>
Large Company Stock Funds		
Excelsior Value & Restructuring	15.9%	-5.0%
Dreyfus S&P 500 Fund	10.6%	-12.4%
Janus Olympus	20.2%	-32.1%
Small Company Stock Funds		
Longleaf Small Cap	6.1%	5.5%
Firsthand Technology Value	41.4%	-44.0%
Berger New Generation	29.9%	-52.1%
International Fund		
Artisan International	9.8%	-15.9%
Bond Fund		
PIMCO Short Term Bond	0.7%	5.4%
Funds of Funds		
MJB Large Company Aggressive Growth	20.6%	-35.2%
MJB Large Company Conservative Growth	10.4%	3.3%
MJB Small Company Aggressive Growth	30.5%	-11.1%
MJB Small Company Conservative Growth	16.7%	9.2%
MJB International	12.5%	-17.2%

Many investors are asking whether the fourth quarter rally can continue. We believe that to be the wrong question. Short term market movements cannot be predicted accurately on a

<sup>2</sup> Enron is the most recent case in point.

consistent basis. They do little more than provide an opportunity for investors to make poor decisions as they try to "time" the markets based on the mistaken belief that short term movements – up, down or sideways -- will continue in the same direction for the foreseeable future. The result is a tendency to buy at high points on the belief that the market will only move higher (when in fact the risk of a downturn is at its greatest) and/or sell at low points on the belief that the market will only move lower (when in fact the risk of missing out on large gains in an ensuing rebound is at its greatest). By contrast, long term investors spend little time or energy trying to determine whether markets will go up, down or sideways in the next days, weeks or months. They understand that over the long term, equity markets reflect investors' belief in economic growth, and thus are able to see that the markets are on a long term upward course, interrupted periodically by bouts of economic uncertainty. When economic growth resumes, the "interruptions" end and the markets resume their upward course. It is important to remember that the "interruptions" – including the one in which we have been for the past two years – are temporary; the growth should be longer lasting and is likely to continue well into the future. And so, even with the sporadic drops, an investor's time is best spent determining an appropriate long term strategy designed for his/her time horizon and risk tolerance, and not trying to guess which way the market will move in the short term.

At MJB Asset Management we invest side by side with you in all of the funds in the Davis & Gilbert plan. We are aware that the past eighteen months have been extraordinarily frustrating for many investors. But we also remain confident that it has been one of those interruptions in the market's long term upward course caused by a temporary slowdown in economic growth. Keep your long term goals and time horizon in mind; determine a properly diversified allocation appropriate for those goals; and stay with your allocations until such time as your investment goals or time horizon change. The markets can rebound without much warning. It is imperative for your account to be properly positioned for any such turn.

I encourage all plan participants with questions or comments to call me at (212) 421-4042 or e-mail me at [rbregman@mjbassetmanagement.com](mailto:rbregman@mjbassetmanagement.com). I look forward to hearing from you and to seeing you in your offices shortly.