MJB ASSET MANAGEMENT LLC

950 Third Avenue, New York, NY 10022 (212) 421-4042

RICHARD BREGMAN, CFA, *Chief Executive Officer*

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Dear Clients and Friends:

Since our last letter to you, the recession has been declared “officially” ended. Industrial production has begun to increase, business inventories have declined to normal levels and the rate of layoffs has decreased. Retail sales have remained steady, interest rates have stayed low and inflation has remained quiescent. It would appear that an economic recovery is under way.

However, we are not yet out of the woods. For despite the good news on business production, sales and inflation, economic reports are still mixed. Consumer confidence and housing starts declined last month; interest rates, though still low, have started to inch up; energy prices are rising; and, of course, the political, military and emotional uncertainty caused by the turmoil in the Middle East and the United States’ war on terrorism casts a shadow over everything as those conflicts begin to siphon human and economic resources away from innovation and growth. From a purely economic standpoint, the increases in rates and energy prices are to be expected as worldwide economic activity begins to increase; at this point in time, neither interest rates nor energy prices have risen to levels that would impede a recovery. Consumer confidence, however, is much more critical, inasmuch as aggreagate consumer spending accounts for two thirds of our economy and ultimately is the driving force behind business decisions to invest discretionary dollars on new plant, equipment and labor. Should consumer spending drop significantly, the recovery will almost certainly stall; should it continue to hold up, all of the elements will be in place for a rebound, with the economy simply going through some fits and starts until it finds the delicate balance among those elements that will lead to sustained economic growth.

As always at MJB Asset Management, we invest side by side with our clients in all of the same stocks and mutual funds. Given the current environment, we have begun positioning portfolios to benefit from a slow, uneven and comparatively mild economic recovery. For clients with individual stocks, we continue to search for high quality companies trading at prices 40% or more below their highs. Within the context of that purchase discipline, we have added to positions in companies with broad product demand among the consumer, business and government sectors of the economy (e.g., General Electric) or that benefit from inflexible demand for their products (e.g., Bristol Myers Squibb and Merck). At the same time, we are reducing positions in companies that rely almost exclusively on consumer spending (e.g., Wal-Mart, Gillette and Coca-Cola).

Last quarter, we wrote about our purchase of shares in Bristol Myers Squibb (BMY), the world's fifth largest pharmaceutical company. We believed the market had overreacted to the Food and Drug Administration's decision to delay approval of BMY's potential blockbuster cancer drug Erbitux – a belief that was confirmed when the stock rose from our purchase price in the mid-$40's per share to approximately $51 within several weeks. Several weeks later, BMY announced that another of its pipeline drugs did not perform as well as expected in clinical trials. And the day after that, Bristol announced that previous pricing incentives offered to drug wholesalers had created an inventory overhang that would eat into profits as the inventory was worked off. The stock price dropped into the low $30's as short term investors fled. We are long term investors, and took the opportunity to purchase more shares at the reduced price. Bristol Myers remains a premier pharmaceutical company. The net effect of these events has been to delay, not eliminate, the company's growth. Erbitux remains a potential blockbuster; the inventory overhang should disappear within a year. And with the stock price artificially depressed, purchasers of BMY now receive a dividend yield of 3.5% and the potential for substantial capital appreciation on two fronts: 1) organic growth as BMY continues to develop and market new drugs; and/or 2) as a potential takeover candidate at a premium price by any one of several large drug companies. Our investment horizon on Bristol Myers has lengthened, but we are confident that our investment will reap ample rewards.

The market has placed a magnifying glass over corporate accounting practices, with the slightest hint of irregularity bringing swift and severe punishment. Last week, General Electric -- the world's largest company as measured by its value in the stock market -- announced that its revenues had slowed during the recession, but that it would nonetheless meet its earnings targets. GE manufactures and sells a broad range of products to a broad range of end users, from its well known electic bulbs and household appliances to medical imaging machines (e.g., cat scanners and MRI's) to turbine engines and power generators. GE also owns the NBC television network and has a finance arm, GE Capital, that is in effect the world's largest bank. So it is not entirely surprising that a company with such a broad reach would suffer a drop in revenues during a worldwide recession. However, GE also announced that it would take a large, one time, *non-cash* charge against earnings due to a *completely legitimate* accounting change. The stock plunged more than 10% on that day as short term investors panicked and sold their shares. The price dropped another 5% before stabilizing several days later. We already owned shares of GE, and bought more after the announcement, viewing the drop as a temporary price decline that provided us with the opportunity to increase our ownership of one of the world's premier industrial/consumer companies at a bargain price.

For clients with mutual funds, we have maintained exposure to a variety of market segments and investing styles. We generally keep a slight overweighting toward managers who follow the so-called "value" style of investing, i.e., purchasing unglamorous, out-of-favor and/or temporarily depressed stocks at bargain prices and holding them until the share prices appreciate back to fair value. The overweighting served our clients well this past quarter as value-oriented funds in general, and particularly small cap value-oriented funds such as Third Avenue Small Cap (6.0%), Longleaf Small Cap (11.2%), ICM/Isabelle Small Company (13.1%), Gabelli Small

Company Growth (8.9%) and Tocqueville Small Cap (6.5%), generated above-average returns. Our international fund managers also performed well, particularly Tweedy Brown Global Value (6.8%), Julius Baer International (4.3%) and Longleaf Partners International (3.6%).

Notwithstanding the strong performance by value-style funds this quarter, we will continue to invest in other styles and market segments, including funds that pursue the so-called "growth" style of investing. Although growth investing – in which managers purchase the stock of companies with consistently growing sales and/or earnings – does not generate returns that are as consistent as those generated by value investing, what it lacks in consistency it more than makes up for with pizzazz. Should the markets enjoy a renewed bull market or even just a nice rally, growth funds will be leading the pack with outsized gains. In all cases, we search for high quality fund managers in whom we have developed confidence over the years, justified by their abilities to generate strong long term returns in a variety of market conditions.

Thank you for investing with MJB Asset Management.

Sincerely,

Richard Bregman