

# MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

January 31, 2003

Dear Clients and Friends:

Fitness instructors remind their students while doing movements (typically a lunge) that puts weight on their knees to provide support for the knee by aligning it directly above the ankle, i.e., not too far in front or too far behind. If the knee is too far out in front, they are “living in the future;” too far back, and they are “stuck in the past.” Either way, they are not “in the moment,” i.e., not focusing on what to do in the present. The same holds true for investors. The results of prior years, both good and bad, are past; the future is not knowable with certainty. The stock market has declined now for three consecutive years. We know how it feels, for we invest side by side with all of our clients in all of the same stocks and mutual funds. And though we remain confident of a market turnaround, we are not able to predict its exact timing. As investors, we choose not to dwell on what was or what might be; we choose to focus on the present and what we can do here and now – i.e., make well-informed choices about asset allocation and security selection that reflect current conditions and each client's unique investment goals.

At present, the markets are crying out that they are ready to recover. But that is not likely to happen until the threat of war with Iraq is resolved. This is not surprising, given the extent to which such an external shock can affect investor sentiment, which in turn affects the markets. Nevertheless, we remain optimistic, for beyond the conflict with Iraq, many of the reasons for the market's decline are gone. Valuations for many companies have declined to reasonable levels; corporate governance has improved; and the U.S. economy has contracted to the proper size for total output to meet the current level of total demand, allowing the economy to stabilize and become poised for sustained growth. Current economic reports have significantly improved over the almost uniformly negative reports of a year ago. Early last year, growth was negative, corporations were missing earnings targets by wide margins, major companies were announcing massive layoffs and consumer confidence was fragile. By the end of the year, excess inventories had dwindled, manufacturing had begun to increase, the rate of layoffs had begun to slow and companies began to meet and even exceed earnings targets. Those positive indicators have continued into this year, though consumer confidence has remained fragile in the face of lingering unemployment and the threat of war.

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Given the unpredictability of war and its aftermath, we have been moving many of our client portfolios toward a more conservative posture. Our individual equities are a diversified group of high quality, blue chip companies across a broad range of industries, including pharmaceuticals, consumer products, automotive, entertainment/leisure, retail, technology and business services. The companies typically have strong balance sheets and enjoy good market share, barriers to entry, and/or some degree of pricing power. Most also pay dividends to their holders of common stock. All had dropped at least 40% below their most recent high prices before we made initial purchases. Buying stocks on the cheap helps reduce the risk of further price declines and adds stability to our portfolios during volatile markets.

In mutual funds, we continued to move away from "growth" style funds and toward "value" style funds in which managers purchase undervalued, out-of-favor companies with catalysts for change. The value style offers investors the opportunity to participate in market movements without having to own the highflying growth stocks that bring increased volatility to portfolios. As always, however, we continued to hold positions in a broad range of funds to remain properly diversified and ensure that our clients can benefit from the skills of managers who might be investing in different parts of the market but who share an ability to generate above-average long term returns.

Part of the way we stay focused on the present is to make certain that we are always available to talk with clients, to answer any questions and make certain that we are up to date with everyone's current circumstances, views and feelings about investing and their portfolios. We encourage you to call us at any time; we always look forward to speaking with you about your investments.

Thank you for investing with MJB Asset Management.

Sincerely,

Richard Bregman