

# MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

April 30, 2004

Dear Clients and Friends:

When investment environments change, we examine our investment strategies to determine whether adjustments are necessary. At this time, investors have bid equity markets up to levels that do not reflect current economic fundamentals, and that can only be justified by substantially higher growth. The market has already priced in the recent increases in retail sales, consumer prices and employment, leaving scant margin for error in future reports. Only time will tell whether the increases develop into sustained growth.<sup>1</sup> We prefer to stay in the present: the market is expensive, and we are investing with that view in mind. We are taking profits in stocks as their prices appreciate; we are avoiding the most expensive parts of the market; and we have increased our positions in strategies that are hedged against potential drops in the market.

For clients with individual securities, we took profits opportunistically during the past quarter by trimming positions in various stocks -- in most cases Ford Motor, Xerox, Intel and/or Walt Disney -- as they appreciated beyond their normal portfolio weightings. We added no new stocks to our portfolios. For clients with mutual funds, we made limited purchases of shares in "value" oriented funds, i.e., funds that purchase stocks of undervalued companies.<sup>2</sup> We avoided "growth funds," i.e., funds that invest in companies with increasing rates of growth. We believe many such companies -- even the high quality ones -- are in the most overbought part of the market and currently have the greatest risk of price declines.<sup>3</sup>

In addition, we have increased our positions in "alternative strategies," i.e., investment strategies that do not correlate closely to the broad market's ups and downs. Examples of alternative strategies include *merger arbitrage*, which involves purchasing stocks of companies that are the targets of corporate takeovers; *long/short investing*, which involves selling stocks "short" and re-purchasing them at lower prices to make money in down markets; and use of

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<sup>1</sup> First quarter GNP slowed down to 4.1% -- still positive, but below consensus estimates of 5%.

<sup>2</sup> Value-style managers are reporting increasing difficulty finding good companies at good prices. See, e.g., the most recent shareholder reports of Longleaf Partners Funds ([www.longleafpartners.com](http://www.longleafpartners.com)), the Clipper fund ([www.clipperfund.com](http://www.clipperfund.com)) and the Weitz Value fund ([www.weitzfunds.com](http://www.weitzfunds.com)).

<sup>3</sup> Krispy Kreme Doughnuts is a recent case in point. The company announced that it was lowering its growth forecast -- not that it was losing money, but that its future rate of growth was slowing based on recent dietary shifts to lower carbohydrate food products -- and the stock price immediately declined by 30%.

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*options* and/or *futures* to hedge against drops in the markets. Although these strategies can sound risky, they are well-known and accepted investment strategies with long track records. Alternative strategies seek to deliver absolute returns – i.e., positive returns year in and year out, regardless of broad market movements. This contrasts with traditional "relative" return strategies, which typically go up (hopefully by more than the market) when the market goes up and go down (hopefully by less) when the market goes down. Relative strategies work well in rising markets, particularly when the market is inexpensive and poised for a rally. Alternative strategies are far more consistent, typically generating anywhere from 6% to 12% per year. They likely will lag relative strategies (though still generate positive returns) in a strong bull market, but strongly outperform relative strategies in down markets.

After stocks gained more than 30% in the past year, we believe the market's current risk/reward characteristics favor the consistent returns of alternative strategies over the potential ups and downs of relative strategies. As a result, the most significant additions we made to our clients' equity mutual fund holdings during the past few months have been to funds that pursue alternative strategies, including the Merger Fund, the Gabelli ABC fund, the Alpha Hedged Strategies fund and the Rydex Sphinx fund. We have performed significant due diligence on these funds and have invested in several different strategies for diversification. And as always, of course, we have invested our own money side by side with our clients in each of these funds – as well as all of the other stocks and funds in our clients' portfolios.

Bonds, too, are expensive right now. Increased economic growth historically stokes inflation -- a bond investor's worst enemy, for it eats into a bond's long term fixed interest payments. Although productivity gains and job outsourcing have restrained domestic job growth and kept inflation somewhat at bay, investors have begun (rightly or wrongly) to fear renewed inflation. They are selling their bonds, and interest rates have begun to rise. To protect against potential losses in this environment, we have moved to bonds and/or bond funds that have very near term maturities. Such bonds are less likely than longer term bonds to decline in price as rates rise. And as with the stock market, we have decreased our exposure to typical bond investing, favoring strategies that deliver absolute returns as opposed to relative returns. In this context, we have added positions in the Metropolitan West Strategic Income Fund, which uses futures and options to hedge against the drop in bonds that occur in times of inflation.

Thank you for investing with MJB Asset Management. We look forward to discussing your portfolios and investment goals.

Sincerely,

Richard Bregman

MJB Asset Management is registered with the Securities and Exchange Commission. We are happy to provide you with a copy of our most recent SEC Form ADV upon request.