

MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

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Dear Clients and Friends:

“Forever – it composed of Nows.”

-- Emily Dickinson

Investors frequently focus on what was (past performance) or what will be (future results) rather than on what is -- i.e., the present, and what to do as investors in the present moment. Conventional wisdom perpetuates this misplaced focus, frequently using past performance to justify future speculation – e.g., “invest for the long term;” “set long term goals and strategies and stick to them;” and “stocks outperform bonds over the long term.” But the “long term” is no more than an endless stream of present moments -- “Nows” -- all of which are unknown until they become the present. As investors, it is the present moment – not the past or the future – in which we can make choices that ultimately add up to the “long term.” It is in each and every present moment that we can observe and assess current investment conditions, personal circumstances and feelings about risk, and then make choices that best match current conditions with personal needs. To ignore the present moment under the guise of “investing for the long term” is to abdicate the only control we have over “long term” strategies, i.e., how we choose to react in every moment to current conditions as they occur.¹

“Fed-watching” is a terrific example of investor preoccupation with the past and the future, as legions of investors try to predict the number and frequency of future Federal Reserve moves based primarily on past Fed actions. Earlier this year, economic reports showed the economy to be growing rapidly, though anecdotal evidence suggested the growth to be uneven by industry. More recent reports show that economic growth is beginning to moderate. Many corporations have reported improved earnings, but some are also warning of lower growth in revenues, profits and/or profit margins going forward; a number have missed earnings projections altogether. As interest rates rise, home sales are slowing. As energy costs rise, consumers -- who now must pay \$30-\$40 for a gas station fill-up -- and businesses that depend on fuel (e.g., trucking, airlines, cruises, etc.) are feeling the pinch. Though consumer confidence

¹ Stocks over bonds for the long term is particularly egregious -- speak to investors in stocks during the five year period just ended on June 30, 2004, during which stocks declined by an average of 2% per year while bonds rose by an average of 7% per year. We would restate it as: “Stocks have *historically* outperformed bonds much but not all of the time over various periods of time, and *might or might not* do so in the future. If they do, we do not know how long the 'long term' will be; its length will depend on the prices of the stocks at the moments of purchase and sale.”

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has remained high, the June Index of Leading Economic Indicators has declined for the first time in three months. In the midst of all this, the Federal Reserve has begun to raise short-term interest rates in an effort to slow the economy and nip inflationary forces in the bud.

We do not try to predict the Fed or the markets. We prefer to observe the present and make our choices. Investors have bid the stock market up to levels that do not reflect slowing economic growth. Though conventional wisdom says "buy stocks for the long term," our choice right now is to wait and invest at more sensible prices. As a result, we did not add any stocks to client accounts in the past quarter.² We took profits by selling partial positions in Xerox and Gillette after their prices appreciated. For clients with equity mutual funds, the only funds to which we have added are those that hedge their exposure to the market. We will wait for the risk/reward tradeoff to favor reward a bit more before investing significant new monies in the equity markets.

In the fixed income market, bond prices declined as interest rates rose. And though conventional wisdom again says "invest for the long term," our choice right now is to protect principal as rates go up. Unless client circumstances require otherwise, we will stay in short term bonds, cash and/or hedged fixed income strategies until interest rates stabilize.

Investment conditions and investor's own needs can change drastically, unforeseeably and with virtually no warning, at any time. By staying in the moment, investors can recognize such changes and make adjustments to strategies that are no longer appropriate for their goals. At MJB Asset Management we focus on the present to properly match current investment conditions with client needs. As long as stock and bond prices remain high relative to economic fundamentals, we will remain cautious until we see more favorable investment conditions. Because we take each moment as it comes, we will be able to change whenever it is that the conditions change. We do this for our clients as well as ourselves; as always, we invest side by side with our clients in the same stocks and funds.

Thank you for investing with MJB Asset Management. We wish you an enjoyable remainder of the summer.

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.

² We did take advantage of what we felt was a temporary price decline to add to existing positions in IBM.