MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

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Dear Clients and Friends:

"Defer no time, delays have dangerous ends."
-- William Shakespeare

Many investors pursue strategies that rely primarily on hope -- hope that history will repeat itself, that the bull market of 1982 through early 2000 -- an enormous rising tide that lifted most boats and led to the great 1990's mantra "stocks for the long run!" -- will re-appear and again make gurus out of growth managers.[1] Unfortunately, hope is not an investment strategy;[2] reality can be a rude awakener. These investors are stuck in the past, hoping for a future and ignoring the reality of what needs to be done right now. To paraphrase the great Bard, their choices lead them toward dangerous investment ends. Investors who are focusing on the present can see that stock prices are too high relative to economic fundamentals to be a starting point for a sustainable bull market. Although corporate earnings have improved and the economy is growing, the rate of growth in both is slowing – the Conference Board's Leading Indicators of Economic Activity has declined for four months in a row. And the Federal Reserve is raising short term interest rates. This causes bond prices, which move inversely to the direction of interest rates, to decline, creating a tremendous headwind against bond investors. As a result, at this point in time, we see lots of downside risk with little opportunity to earn more than average returns at best from traditional stock and bond investment strategies.

Given this state of affairs, we are increasing our holdings in non-traditional strategies, i.e., absolute return strategies. Absolute return strategies hedge market risk through a variety of techniques, including short sales, options and futures. Their returns tend to have low correlations with traditional stock and bond strategies. They lack the explosive potential of traditional "long only" (i.e., unhedged) strategies, but they earn consistent returns while guarding against the downside risk inherent in stocks. Unless instructed otherwise by our clients, we have increased the percentage of alternative investments in client portfolios to anywhere from 10% to 40%, depending on each client's investment goals. We are accessing these strategies with the Merger fund, the Hussman Strategic Growth fund, the Alpha Hedged Strategies fund, the Franklin Mutual Recovery fund and the Metropolitan West Strategic Income fund. All of these funds hedge directly against market downturns and/or invest in assets that tend not to correlate closely with the market. We will continue to maintain our positions in absolute return strategies until we see evidence that so "long only" strategies offer returns commensurate with their inherent risk.

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[1] The most interesting "hope" theory we've seen recently is the "Rule of 5," which notes that every year ending in the number 5 since 1935 has been an up year in the market. Yardeni, Ed, "Outside the Box, Dr. Ed's Insights," Oak Associates, Ltd., October 22, 2004. (Query: what about prior to 1935?)
[2] Arnott, R., "Sustainable Spending in a Lower Return World," Financial Analysts Journal, Sept/Oct 2004, p. 6, adapting the title of the best selling book, "Hope is Not a Strategy," Page, R., New York, McGraw-Hill, 2002.

For our remaining positions in the stock market, we are exercising extreme caution, taking profits in holdings that have appreciated significantly, including McDonalds, which has realized the benefits of a several year old restructuring plan, and Exxon-Mobil, whose share price has run up substantially as the price of oil has risen to in excess of $50 per barrel. We will add a position only if we are able to purchase it at a discount to what we believe to be the company’s current intrinsic value, assuming no future growth. (The assumption of no further growth provides us with a margin of safety in our calculations.) During the past quarter, we were able to add a position in Knight Ridder, Inc. (KRI), the nation's second-largest newspaper publisher. KRI publishes 31 daily newspapers in 28 U.S. markets, with 8.7 million daily readers and 12.6 million Sunday readers. Over the past three years, newspaper stock prices dropped as advertising revenues declined. The entire industry also suffered as several prominent publishers disclosed accounting errors in their circulation figures. KRI was not one of those firms, but its stock price declined along with its counterparts. In addition, KRI owns three daily papers in Florida, all of which temporarily lost circulation and advertising revenues during this year’s hurricane season. These factors combined to push the price of KRI common stock below its intrinsic worth, at which point we were comfortable adding it to client portfolios.

For clients with fixed income holdings, we are staying short term to protect principal as rates continue to gyrate. We will continue to monitor interest rates closely; should opportunities to increase our return in the bond market become available, we will shift into longer term bonds.

At MJB Asset Management, we invest side by side in all of the same stocks and funds as our clients. Our goal is to increase wealth while protecting capital. We do so by focusing on the present moment, each of which brings its own set of circumstances -- some economic (e.g., stock prices, interest rates, economic activity, etc.) and others personal (e.g., views of the world, feelings about risk, personal goals, etc.). Some of the circumstances are new to the moment; others are not. By focusing on the present – i.e., not getting stuck in the past or lost in the future -- we can make conscious choices to pursue the best opportunities available *in the present moment* to achieve client goals *in the present moment* based on the investment environment *in the present moment*. We observe the current environment and make choices to create investment strategies that align current investment opportunities with our clients' needs and goals. Such choices include: choice of stocks, bonds or cash; choice of investment strategies, e.g., growth, value or absolute return; choice of investment managers; choice of risk level. Staying focused on each moment as it arrives also enables us to stay flexible and make any changes needed to stay on course toward meeting client goals. We believe this to be the surest way to avoid dangerous investment ends.

Thank you for investing with MJB Asset Management. We appreciate your trust in us, and look forward to speaking with you.

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.