

MJB ASSET MANAGEMENT LLC

888 Seventh Avenue, New York, NY 10106 (212) 333-3733

RICHARD BREGMAN, CFA, *Chief Executive Officer*

July 31, 2005

Dear Clients and Friends:

A common definition of insanity is to do the same thing over and over and expect a different outcome. For investors, we propose extending the definition to include “acting the same way when circumstances change and expecting the same result.”

We are no longer in a bull market. Bull markets are characterized by expanding stock valuations. By contrast, we are now in the middle of a secular “bear market,” a period of time during which stock valuations decline, the investing equivalent of sailing into a headwind. Secular bear markets can last for years -- the current one started in the middle of 2000. Bear markets are typically interspersed with shorter intervals of rising prices, similar to what we are experiencing now. These shorter intervals are an investment form of fools’ gold -- they fool a lot of investors into staying in a bull market mindset.

Would you agree that successful investing in declining markets requires a different approach than investing in rising markets? Unfortunately, many investors use the same approaches in both bull and bear markets and expect the same outcome. This “same approach” typically is a standard “relative return” strategy based on a theory called the Efficient Market Hypothesis (EMH). EMH theorizes that markets are “efficient,” i.e., markets immediately absorb all relevant information about stocks and accurately price the stocks to reflect that information. Investors cannot consistently act on any information about a stock before the rest of the market finds out, and therefore cannot outperform the market. And since we theoretically cannot “beat the market,” the best strategy is to simply join the market, buy an index fund, and hold on for the ride. Thus the name “relative return” strategy – this approach virtually guarantees that your portfolio will move entirely in relation to, and in lockstep with, the overall market. Relative return strategies work great in rising markets. But in bear markets, relative return strategies invariably follow the market down, leaving investors with one hope: “the long term.” Hold on for the long term and hope the market comes back so you can recoup your losses.¹

This makes little sense to us. If we are in a period during which the market’s general direction is likely to be downward, why use a strategy that ties us to the market? Fortunately, other strategies exist. These strategies – called absolute return strategies -- are designed to generate gains without regard to market movements, i.e., to take the market’s uncertainty out of the equation. These strategies use hedges to limit their exposure to the market and/or invest in markets whose movements do not correlate closely to the movements of the major markets. Properly executed, they have the potential to consistently generate returns of anywhere from 4% to perhaps 9% or 10% per year – let’s call it 6%-7% on average -- regardless of whether the market goes up or down.

¹ But remember John Maynard Keynes’ line: “In the long run, we are all dead.” Hope is not an investment strategy.

July 31, 2005

Page 2

Investors should certainly increase their use of absolute return strategies during bear markets. At MJB Asset Management, we go one step further. Given that markets are so volatile in general, we are not willing to put the core of our client portfolios in anything so uncertain. Instead, we invest the core of our portfolios in absolute return strategies so that a substantial portion of our client holdings are likely to generate positive returns regardless of what the market does. For the remainder of the portfolio, we use our intuition and experience to observe present conditions and determine where and how to invest – including, *when appropriate*, using relative return strategies during rising markets.

At present, though, we are continuing to underweight relative return strategies. We base this decision on two concerns. One is the unhealthy economic relationship that has developed between China and the United States. American consumers are spending beyond their means, sending billions of dollars to China for inexpensive goods. China uses the money to purchase U.S. Treasury bonds. This drives bond prices up and interest rates down, enabling American consumers to continue their credit-driven (read: home equity loan) spending binge. China then pegs its currency to the U.S. dollar, so the increased demand for Chinese goods does not increase the value of China's currency (or its goods) against the U.S. dollar. This keeps demand for Chinese products humming, and creates the manufacturing jobs China needs to avoid social unrest as it undergoes a massive population shift from rural to urban areas. How long can this go on? We do not know. But as long as it does, the U.S. bond market remains caught in a tug of war between rising short term rates courtesy of the Federal Reserve and flat to declining longer term rates courtesy of the China-U.S. relationship. If China re-values its currency or slows its purchase of Treasury bonds, we would likely see a significant increase in interest rates, either because Chinese goods will cost more in the U.S., which will fuel inflation and an increase in rates, or because the demand for Treasury bonds will decline, resulting in a price decline which also creates an increase in interest rates. Should longer term rates rise in earnest, beware the housing market -- our second area of concern. Low rates have enabled the housing market to soar, both in sale prices and homeowners' ability to transform the equity in their homes into spending money courtesy of inexpensive home equity loans. This spending has been driving the economy. We do not know how long it can continue, but it cannot continue unabated forever. Whenever the housing market cools, the consumer segment of our economy, or roughly two thirds of our Gross National Product – might grind to a halt.

And so we will continue to use strategies that hedge a significant portion of our client portfolios against drops in the markets. For clients with individual stocks, we did not purchase any new securities this past quarter. For clients with mutual funds, we are investing new monies almost exclusively in funds that hedge against market risk or pursue strategies with a low correlation to market movements. We will continue this approach until we see improved opportunities for gains from unhedged positions in the U.S. stock and bond markets.

Thank you for investing with us. 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 and our confidentiality statement upon request.