

MJB ASSET MANAGEMENT LLC

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

RICHARD BREGMAN, CFA, *Chief Executive Officer*

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Dear Clients and Friends:

“Timing is everything.”

“You can’t time the market.”

-- Anonymous maxims

If timing is everything, but you can’t time the market, what’s an investor to do? One choice is to follow conventional wisdom, which tells us to hope and pray: you can’t time it, so don’t even try, just get in -- then hope and pray you have chosen the “right” time. To improve your odds, spread your assets among a few baskets. If you choose “wrong,” don’t worry -- simply hold on for the amorphous “long term,” because everything will eventually go up. Unless, of course, it doesn’t. Unfortunately, hope is not an investment strategy; rather it is a tacit admission of no proactive plan to invest in the markets.¹ The universe brings what you ask for – investors choosing an approach that relies on a hoped-for “long term,” get exactly that: a long wait to reach their goals. Think not? Ask investors who blindly bought into the market in 1999 or 2000 – most have not yet made their money back. By contrast, speak to investors who entered the markets in 2003 – they are up anywhere from roughly 10% to 50% on their stock investments.

An alternative to timing is to choose strategies that limit the market’s volatility so that timing is no longer a major factor in investment decisions. Such alternative strategies typically “hedge” all or a portion of the market’s volatility. Hedging techniques include “selling short” or using futures and options to limit market risks. These techniques can sound intimidating but are standard tools in the financial markets. Properly used, they can protect your portfolio against substantial losses. The protection comes at a cost, i.e., a limit on your potential upside gain. However, even after costs, well-executed hedged strategies can earn a fairly consistent 6-8% per year, largely independent of market moves.

At MJB Asset Management, we recognize the challenges of timing the market and are cognizant of the consequences of “guessing wrong.” At the same time, we see the strong benefits of increasing our position in the market when valuations are low, and cutting back our exposure when valuations are high. In managing our client portfolios (and our own, as we invest side by side with our clients in all of the same stocks and funds), we use risk-limiting alternative strategies as our core holdings, insulating the largest part of our portfolios from the vagaries of market risk. For the remaining portion, we observe current investment conditions and choose where, when and how to invest in the markets opportunistically for additional growth. The result is a balanced portfolio, with a fairly stable core in alternative strategies and the remainder deployed strategically in asset classes that present strong opportunities for gain relative to risk.

¹ This is not to say we do not believe in the power of hope and prayer – just not as an investment strategy.

October 31, 2005

Page 2

Currently, we remain bearish on stocks and bonds, as both continue to face the strong headwind created by rising interest rates. Federal Reserve Chairman Alan Greenspan recently referred to the U.S. housing market as a bubble; the Fed appears intent on raising rates until the bubble is no longer. The \$64,000 question is whether it disappears smoothly as its air gradually lets out, or violently in a burst. Economic commentary is mixed.² We sense it is more likely to end badly than smoothly, particularly as we begin to hear anecdotal evidence that the housing market is slowing and that individuals are feeling the pinch of higher interest payments on their variable rate home equity loans (i.e., second mortgages). At the same time, longer term interest rates remain relatively low, due in large part to the continuing unhealthy economic relationship between the U.S. and China.³ Banks, finance companies, mortgage companies and credit card companies are using the low rate environment to aggressively offer credit without adequately checking borrowers' credit worthiness.⁴ As the pool of potentially uncreditworthy borrowers increases, so does the potential pool of future bad debts. Many debtors will likely declare bankruptcy; the less fortunate ones might lose their homes. For lenders, an increase in bad debts will likely hurt their profits and their stock prices. This is a time bomb waiting to explode.

It is always important to remember that *we control the choices we make*, even if we cannot control the market. We choose our investment goals; whether we want to be in the market; when we enter and exit the market; what style of investing we wish to do in the market; how we react to short term market movements; etc. In looking at the current investment environment, we have increased our positions in hedged, low volatility and/or low correlation strategies and remain underweight in traditional stock market strategies. To the extent we are in the markets, we are using value-oriented managers who focus on current value and do not overpay for their holdings. We will maintain our cautious stance until we see an improved risk/reward ratio in the traditional investment markets.

Thank you for investing with us. We look forward to speaking with you soon.

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.

²E.g., Morgan Stanley economist Stephen Roach believes it will end badly; JP Morgan economist Jonathan Golub believes it will be a smoother ride, with residential real estate essentially having zero growth over the next ten years. Comments at JP Morgan Asset Management due diligence meeting, New York, New York, October 21, 2005.

³ In a nutshell, Americans consume beyond their means, buying inexpensive Chinese goods; China takes the money and buys billions of dollars of U.S. Treasury securities, which artificially drives down interest rates, which in turn allows Americans to use credit to continue buying cheap Chinese-produced goods.

⁴ We recently received in the mail a pre-approved credit card solicitation addressed to our 10 year old son.