

MJB ASSET MANAGEMENT LLC

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Dear Friends:

“Though you be swift as the wind, I will beat you in a race.”
-- the Tortoise, replying to the Hare’s ridicule.

The investment world has its versions of Aesop’s tortoise and hare. They are called “relative return” and “absolute return.” Relative return embraces the notion that markets are “efficient;” that investors cannot outperform an “efficiently priced” market; and that rather than try to beat the market, investors should resign themselves to simply being in the market and holding on. Investment gains are completely related to the movements of the market. When the market goes up, so does your portfolio; when the market goes down, so does your portfolio. The only question in either case is by how much “relative” to the market. We call it the “hope and pray” approach to investing because at the end of the day, investors must hope and pray that the market rises. Down markets are accepted as the desert through which investors must wander before they can reach the promised land of positive returns. Commonly called “buy and hold” or “investing for the long term,” the relative return “hope and pray” approach is deeply ingrained in the investing public’s psyche as the primary way to invest in the stock market.

“Absolute return” strategies seek to make money regardless of whether the market goes up or down. They can sound exotic,¹ but are consistent and -- unlike relative return strategies -- tend to protect investors during down markets. There is no free lunch -- most absolute return strategies forego some upside in exchange for the downside protection. While they might not fully participate in raging bull markets, they almost assuredly do not suffer large -- if any -- losses when the market drops.

In our analogy, relative return strategies are the hare; absolute returns strategies are the tortoise. During bull markets, relative return strategies leave absolute return strategies behind, i.e., the hare is up and running hard. But when markets are flat, sideways or down, absolute returns pull ahead. (Flat or sideways markets are akin to the hare falling asleep. Down markets are more akin to the hare forgetting where it is and going backwards toward the starting point!)

But unlike Aesop’s fable, the investment race between relative and absolute return strategies has no set course and no set finish line. And there is no rule that investors must use only one or the other. Each strategy has its time and place, depending on prevailing investment conditions. Relative return strategies work great during rising markets; less so at other times. Relative return strategies work

¹ Common techniques include using options, futures and/or short selling to hedge against drops in the market and/or individual stocks; investing in announced public mergers (generally referred to as merger arbitrage); and investing in stocks that are not tied to traditional markets, such as distressed securities.

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consistently across most markets.² The key is to use both strategies and over- or under-weight them according to prevailing market conditions.

However, as we mentioned earlier, relative return strategies are deeply ingrained as the primary method of investing in the markets, while absolute return strategies are often viewed as exotic. As a result, most investors use relative return as their core strategies, effectively subjecting the largest portion of their portfolios to the vagaries of unpredictable and uncontrollable markets while depriving themselves of many opportunities to earn consistent positive returns. This makes little sense to us. And so at MJB Asset Management, we do the opposite. We use absolute return strategies as our core so that the largest part of our client portfolios is delivering consistent positive returns year after year. At least one third of our portfolios are in absolute return strategies, with the remainder allocated to relative returns strategies and fixed income. As client expectations and current investing conditions shift, we correspondingly shift allocations within the portfolios.

Looking at current investing conditions, we see little to inspire confidence. Interest rates, energy costs and raw materials – all of which are large costs for businesses -- are rising. Though corporate profits have been good, this is due at least in part to the shifting of labor costs overseas. And many corporations without large labor costs that had been growing rapidly, including Yahoo, Amazon and Google, are announcing lower growth and sales expectations for the future. Companies with large labor costs are posting dismal earnings and continuing to layoff workers. Recent examples include Ford, General Motors and Kraft Foods. The housing market has slowed and begun to decline in some areas. Globally, Americans continue to live beyond their means; China and Japan continue to subsidize the American consumer by buying huge quantities of U.S. Treasury debt; and there does not appear to be any rapid ending in sight for armed conflict around the world.

In light of these conditions, we have increased the percentage of absolute return strategies in our portfolios and have reduced both relative return and fixed income holdings (except for limited purchases of short term bonds, which are paying in excess of 4% per year). We will continue this positioning until we see an improvement in the valuation of stocks relative to economic conditions.

Thank you for investing with MJB Asset Management. As always, we invest side by side with our clients in all of the same stocks and funds. And as always, we 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 and our confidentiality statement upon request.

² Note that different absolute return strategies work differently in different economic climates. A diversified combination of absolute return strategies should produce consistent positive returns in most markets.