

# MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

April 30, 2006

Dear Friends:

*“Never follow the crowd.”*

-- Bernard Baruch

Stock market legend has it that upon receiving a stock tip from a shoe shine boy in 1929, Bernard Baruch – the extraordinarily successful stock market investor and financier who, after making his fortune on Wall Street, went on to become an economic advisor to U.S. Presidents and elder statesman on world affairs -- declared that when the shoe shine boy becomes a stock market expert, it is time to sell. Shortly thereafter, Mr. Baruch sold most of his stocks and avoided the 1929 market crash.<sup>1</sup>

A few weeks ago, the doorman in our building (who through casual conversation over the years knows I am in the investment industry) told me that he was selling all of his mutual funds to buy oil stocks. That same day, an acquaintance of mine who is an unsophisticated investor and with whom I speak occasionally (and never about investing), called to tell me her boyfriend was begging her to find out how to invest in silver because the metal's price had just hit a new high of \$13/ounce -- did I have any suggestions for how they could invest in silver?

As investors, we have choices. First we must choose whether or not to invest. If we choose to invest, we must then choose how to invest. Many investors make their choices by looking at the past and assuming, hoping and praying that it will repeat (or not) in the future, i.e., they pick a time to invest and then hope and pray that the market goes up, because – depending on their point of view -- either it always has in the past, or because this time will be different from the past. Either way, they are stuck in the past. But if we stay in the present, we are free to make informed choices based on currently observable data, unburdened by the agonizing hope that past patterns, whether recent or distant, will repeat themselves. In 1929, the bulk of investors were stuck in the then-recent past. Stock prices had been going straight up and investors assumed that the pattern would continue, even amid signs of widespread speculation. Mr. Baruch, however, stayed in the present. He recognized then-current circumstances, chose not to follow the crowd, and by doing so avoided one of the great financial debacles in history.

Making a conscious effort to stay in the present moment will change the way you invest. You will frequently find yourself “out of sync” with the crowd, but that is OK, for remember, most investors are simply following the crowd and relying on their perception of the past. At MJB Asset Management our goal is to stay in the present and create a resonant match between current investment opportunities and current client needs and goals. For us, staying present is crucial -- the investment environment, as

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<sup>1</sup> This story has alternately been attributed to Joseph Kennedy.

well as client needs and goals, can change at any moment. We cannot respond to any such changes if we are not present for them. Staying present means being able to freely take action, or not, based on what needs to be done now. At times that might mean following the crowd and at times it might not. Going back to the stories about my doorman and my acquaintance, are they a 2006 version of the shoe shine boy in Mr. Baruch's story? Is it time to sell? With regard to oil and silver, demand to build infrastructure in China and India is pushing up the prices of oil and various metals. So is political tension between the U.S. and Iran. So is demand from financial speculators, who are seeking shorter term gain from what they believe (hope and pray) will be the continuation of recent price increases. These fundamental, political and speculative forces have increased the price but not reduced the inherent risk of investing in commodities. Commodities are cyclical – as prices rise, end-user expenses get too high and demand slows, causing the price of commodities to drop. At current prices, we believe that energy and metals do not offer the type of investment gains that justify their risks. And so, yes, we believe it is time to sell -- perhaps not following the crowd -- and we are cutting back on our energy and commodities holdings.

In the broader market, global growth continues. However, higher interest rates around the world<sup>2</sup> together with higher commodity and energy prices are beginning to put the brakes on that growth, as raw material costs, mortgage payments and energy expenses all increase.<sup>3</sup> A voracious Chinese economy and a resilient U.S. economy have absorbed the higher costs so far, but we do not know for how long that will continue. Improved technology and productivity at home and at work have helped, but math is math: higher expenses are taking a toll on profitability. Business is still good, but clouds are beginning to form.

Do current stock and bond prices accurately reflect current economic conditions? We believe not, at least as measured by traditional benchmarks such as the Dow Jones Industrial Average and the S&P 500 Index. In our view, the stock indices are perhaps fairly valued but more likely somewhat over-valued; an investment in traditional markets at this time will yield average (if the markets are fairly valued) to below average (if the markets are over-valued) returns, with no corresponding reduction in risk. As such, we do not find traditional market strategies overly attractive at this moment. We have reduced our allocation to traditional markets and are continuing to emphasize hedged and absolute return strategies that do not closely track the movements of those markets.<sup>4</sup> We will maintain this posture until we observe improved risk-reward ratios in the traditional stock and bond markets.

As always, we continue to invest side by side with all of our clients in the same stocks and funds. Thank you for investing with MJB Asset Management. 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.

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<sup>2</sup> China just announced an increase in rates to rein in economic growth.

<sup>3</sup> At this writing, oil is above \$70 per barrel. Gasoline is above \$3 per gallon. Interest rates in the U.S. are at 5% -- triple what they were only two years ago. Both Ford (-2.7%) and GM (-7%) just announced declines in sales, spurred largely by decreased demand for their highly profitable, gas guzzling trucks and SUV's.

<sup>4</sup> To hedge against traditional markets outperforming absolute return strategies, we are maintaining anywhere from 10% to 30% of our portfolios in traditional stock strategies, investing primarily with value style managers.