

# MJB ASSET MANAGEMENT LLC

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

RICHARD BREGMAN, CFA, *Chief Executive Officer*

August 4, 2006

Dear Friends:

*"[You] have the capacity to be more than a prisoner of your past. . . . Change is the most powerful force in our society today. Most people fear it, the wise embrace it."*

*-- Robin Sharma, The Monk Who Sold His Ferrari*

The outbreak of war between Israel, Hezbollah in Lebanon and Hamas in Gaza is a sad and brutal reminder of how many people in this world are still prisoners of their pasts. We pray for an end to violence in the Middle East and elsewhere in the world.

Investors, too, can be prisoners of their past, as they are when they position their portfolios for the future by searching the past for successful patterns that they hope will work again. However, the future is unknown; we know of no guarantees that the past will repeat itself. Investors who embrace the past without embracing the potential for change are following what we call the "hope and prayer" approach to investing – they must hope and pray that the past repeats itself in the future, preferably sooner rather than later. At times – typically bull markets, when a rising investment tide lifts all stocks -- their prayers are answered; other times they are not, at which point they resign themselves to "hold on for the long term."

At MJB Asset Management, we focus on the present, for we believe that staying in the present allows us to create our investment future. Every new moment brings with it a virtually unlimited number of choices. By staying present, we can set clear goals and then make whichever investment choices are best suited *in the present moment* to move us toward those goals. And as each moment changes, i.e., as the future unfolds and brings us new choices, we are free to make whatever changes are necessary in the new moment to continue moving us toward our goals. We need only to stay mindful of the goals that we have set and then identify the investment opportunities that we currently believe are most likely to move us toward those goals. We do not have to "hope and pray" that the investment future brings us what we want; we take actions that take us to the future that we want.

Within that framework, our goal is Investment CPR -- investing for Consistent Positive Returns. We seek to earn positive returns regardless of what the markets do. To reach our goal, as mentioned above, we observe the current investment environment and choose the investments that we believe are most likely to produce positive returns going forward. We do not limit ourselves to specific asset classes, strategies or holding periods. We are, however, conscious of risk, which we view as decisions that we (we are not perfect!) or other investors make that result in substantial declines in our client portfolios. We protect our clients against such risk by hedging the core of their portfolios against market declines. After putting the hedged strategies in place, we consider using non-hedged investments in the remainder of the portfolios. Non-hedged strategies typically come with higher risk than hedged strategies. As such, we

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prefer to use non-hedged strategies only when our analysis shows they are priced extremely attractively. Over time, we adjust our allocations between hedged and non-hedged strategies, depending on where we see the strongest potential for returns.

Currently, we do not see strong conditions for equity markets, and we are overweighting hedged strategies relative to non-hedged strategies. U.S. economic growth is slowing, led by a slowdown in the housing market and a corresponding slowdown in consumer spending. Inflation has continued to rise;<sup>1</sup> the labor market is beginning to show signs of slowing;<sup>2</sup> and corporate earnings are uneven, as a larger number of companies are missing their earnings targets and others are warning of slower growth ahead.<sup>3</sup> The Federal Reserve has raised short term interest rates to 5.25% and has not yet indicated definitively when it plans to stop. Overseas, war has broken out in Israel, Lebanon and Gaza; fighting continues in Iraq and Afghanistan; and North Korea is shooting missiles into the Sea of Japan. This is the type of scenario in which many investors decide that stocks are overly risky, particularly when risk free assets such as CD's and U.S. Treasury notes are paying 5% or more. We do not wish to be in front of a wave of selling. Accordingly, we are maintaining a cautious stance toward traditional equity strategies, and have been increasing our positions in hedged and alternative strategies. The aforementioned CD's and short term bonds, at 5% with little if any risk, are very appealing right now, and we have been adding short term fixed income products to client portfolios where appropriate. We have also been doing it for ourselves -- as always, we invest side by side with our clients in the same stocks, funds and strategies.

Thank you for investing with MJB Asset Management. We wish you a peaceful and 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.

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<sup>1</sup> Porter, E., "Economy Slowed This Spring," *The New York Times*, July 29, 2006, p. C1.; Whitehouse, M. and Ip, G., "Economic Growth Slows, Prices Rise," *The Wall Street Journal*, July 29, 2006, p. A3.

<sup>2</sup> Peters, J., "Slow Job Growth in July Suggests Rates Won't Rise," *The New York Times*, August 4, 2006.

<sup>3</sup> Even the oil companies, who are reporting record profits, are warning that their labor and production costs have increased significantly, potentially impacting future profits.