

MJB ASSET MANAGEMENT LLC

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“Sometimes, even the highly improbable happens.”

-- Nicholas Maounis of hedge fund Amaranth Advisors, explaining how Amaranth lost \$6 billion -- two thirds of its investors' money -- in one month.¹

Dear Clients and Friends:

It is important to remember that in investing and in life, the future is unknown. The improbable is not a “sometimes” event -- it is inevitable,² a part of life that has not yet arrived.

While on vacation with my family in Costa Rica in December, I went WaveRunning³ in the ocean with my son. The Pacific was beautiful and calm. We had been going smoothly for about twenty minutes when we went through a swell and in an instant I was bounced off the WaveRunner into the water. Unfortunately, as we wiped out, my foot lodged in the WaveRunner's side running board. I went over but my foot stayed on, resulting in an awkward twist and a fractured ankle. I am sure a statistician can tell me the historical statistical probability of fracturing an ankle while riding a WaveRunner; I would guess the probability is low. Nevertheless, here I am on crutches with two screws in my ankle and scant comfort in knowing that I suffered a statistical aberration, a fluke, a one in ten thousand occurrence.

How different is my WaveRunner experience from that of an investor who puts money into the market and is initially quite happy as the market goes along smoothly, only to have the happiness turn to anguish and perhaps even fear as the market hits turbulence, drops precipitously and takes the investor's account down with it? Statistically, the probability of such a precipitous drop – the investment equivalent of a wipeout -- is low. Yet the probability is not zero; when it arrives the only question is whether you have adequately prepared for it.

I wore a life jacket on the WaveRunner – it did not eliminate the turbulence, but it kept me afloat when we hit it. Too many investors put their money in the market without the investment equivalent of a life jacket. They rely on the traditional, statistical approach to risk, i.e., the market has historically had a quantifiable amount of volatility, you can go up or down in any given year but if you stay in for the long term, you should do fine. But think about people's reactions to turbulence, whether in the air, the water or their portfolios. For many, panic sets in and the first thought that comes to mind is, “Get me out of here!” Few would act upon those thoughts while in a plane or on a boat, but when the turbulence is in the market and the vehicles are their portfolios people can react quite differently. Many do get out – they choose to sell their portfolios, typically at a very inopportune time.

¹ “Anderson, J., “Betting the House and Losing Big,” The New York Times, September 23, 2006, p. C1

² Improbable events need not be negative.

³ WaveRunners are jetskis that can seat up to three passengers – essentially motorcycles on water.

At MJB Asset Management, we make sure our portfolios have life jackets. We actively hedge against market drops so that our clients are protected against the deleterious consequences of what so many investors still view as “improbable events.” We treat such events as a part of life and thus part of investing, and view them as opportunities that we can both avoid and take advantage of. Our hedge against extreme market volatility gives us the chance to stay relaxed and flexible during the storm, to be creative in response to whatever the environment brings. Should markets drop steeply, we can calmly take advantage of lower prices to add value to our client portfolios. If markets do not drop, we have lost nothing but remain positioned for the next improbable event. Our goal is what we call Investment CPR – investing for Consistent Positive Returns regardless of market movements by looking at current investment conditions and positioning portfolios accordingly.

Currently, the U.S. economy is both growing and slowing in the face of high commodity and energy prices, high short term borrowing costs and ongoing geo-political instability. Corporate earnings have been strong, but the growth of those earnings has begun to slow. Employment is up overall, but the pace of job creation has declined and the domestic housing and auto industries are in full blown recession. The stock market has been hitting new highs and is, at best, fairly valued – particularly in light of slowing growth. Short term interest rates, currently at about 5%, are lower than longer term rates. This so-called “inverted curve” indicates that investors fear an economic slowdown ahead, as high short term rates – designed to reign in economic activity and keep a lid on inflation – accomplish their goal and slow the economy.⁴ Against this uneven backdrop, we continue to maintain significant positions in hedged and alternative strategies, seeking to take the risk of an expensive market out of the equation. For the portion of our portfolios that remain in traditional market strategies we are investing with value style managers who seek stocks of undervalued companies that have catalysts in place to drive values higher. Value managers buy cheap, reducing the risk inherent in purchasing a security whose price fluctuates. In the bond market, the aforementioned inverted yield curve is not sustainable, as investors need compensation for tying up their money for longer periods of time. Either short term rates must drop or longer term rates must rise. We do not know which way it will go and will not speculate. We will stay short and intermediate term in the fixed income market until we see reason to do otherwise.

We also do not know what the next improbable event will be. The investment waters have been smooth, but we will not be fooled into removing our life jackets. The consequences of doing so can be swift and severe – witness Mr. Maounis of Amaranth, who lost so much of his investors’ money by choosing not to hedge his bets on the direction of energy prices.⁵ In Costa Rica, my life jacket helped me stay calm, present and flexible in the middle of a potentially panicky improbable event – a good lesson for investors and for life.

Thank you for confidence. We wish you a peaceful, prosperous and safe 2007.

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.

⁴ The Federal Reserve sets short term interest rates. Longer term rates are determined in the bond market.

⁵ Mr. Maounis bet prices would rise, because they had been rising consistently for months. Unfortunately, predictions of a warm winter and decreased fuel usage drove the prices of energy futures down, leaving Amaranth investors unprotected and Mr. Maounis blaming “the improbable.”