

MJB ASSET MANAGEMENT LLC

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RICHARD BREGMAN, CFA, *Chief Executive Officer*

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Dear Clients and Friends:

My twelve year old son recently asked me who my favorite sports commentator is. It occurred to me that many sportscasters speak with authority but lack credibility because (except for former players) they have not played the games they cover. Much of their content simply creates hype in a sports-crazed culture; millions of people listen and at times take action,¹ yet rarely do they hold the commentators accountable. My thoughts jumped to the business world. The financial media, too, has commentators who do not play the games they cover; they, too, create hype and often exploit viewers' fears in a money-crazed culture. The torrent of tips, strategies, reports, etc., is manic and often contradictory; many shows feature "experts" who simply split between "bullish" and "bearish" views, leaving viewers to decide which way to go. Millions of people listen and at times take action. When the results turn out differently than expected they cannot hold the experts accountable.² It is easy to see why so many investors distrust the markets and the financial media.

It is also easy to see why investors would prefer to trust the markets. Trust implies reliability, dependability, predictability -- qualities we all seek. But alas, the markets are utterly unpredictable. Millions of people make buy/sell decisions that affect us every day; we have no control over any of them. The result, of course, is the market's well-known volatility. Standard investment gospel addresses this by preaching to invest for the "long term," suggesting that the market's vagaries will even out over time, that the market will be predictable over time. Intuitively, we know this makes little sense. Time does not make anything predictable; it only provides us with an endless stream of new moments. Each new moment is unique; predictability does not exist. As such, the "long term" is nothing more than a series of unpredictable present moments. Investors who hope their investments will "work out over time" are hoping that those moments will somehow aggregate into a satisfactory future result. We call this the hope and prayer approach to investing -- put your money in the market, then hope and pray the market goes up. If it does, breathe a sigh of relief. If it does not, keep waiting for the long term to arrive.

We believe in hope and prayer; we just do not believe they are optimal investment strategies. The hope and prayer approach takes investors away from the present, asking them to hope and pray for a future outcome while giving up control over how to get there. At MJB Asset Management, we prefer to

¹ People often place money based on what sports commentators are saying; it is generally called "gambling".

² Query: if placing money based on what sportscasters say is called "gambling," what should we call it when viewers place monies based on what investment commentators are saying? For better or worse, sports gamblers frequently know their downside risk as well as the mathematical odds of winning their bets. Not so the investor who bets on a "tip" offered in the investment media.

stay in the present. The present offers the opportunity to make choices that help create the future we want.³ For example, we want our investment results to be positive and independent of the unpredictable market, so we consciously choose to take the market out of the equation. We choose to invest the core of our portfolios in a variety of strategies that hedge away market volatility. These hedged strategies are designed to generate positive returns regardless of how the market moves; they help insulate our portfolios against the effects of a market decline. The remainder of the portfolio goes into traditional stock and/or bond strategies that follow the markets' ups and downs more closely; they provide positive returns in rising markets. We start with a baseline mix that is one third hedged strategies, one third traditional equity strategies and one third traditional fixed income strategies. We adjust the mix to match current investment conditions. When conditions favor traditional strategies, we increase those strategies in the mix, seeking to participate in market gains; when conditions do not favor traditional strategies, we increase the amount of hedged strategies in the mix, seeking to protect against market drops. Given that the market is at all times unpredictable, we at all times keep at least one third of our portfolios in hedged strategies.

At present, we have increased our positions in hedged strategies. Stock markets are reflecting general enthusiasm toward global economic growth; major indices are up roughly 7% year to date. However, clouds are on the horizon. The U.S. economy is slowing. Corporate earnings are slowing. Interest rates are rising. The "sub-prime" market for loans to customers with questionable credit is in distress; defaults are rising sharply.⁴ As adjustable rate loans re-set at higher rates, borrowers must spend more on mortgage payments. Large ticket items such as cars and appliances are also more expensive as interest rates rise on consumer loans.⁵ As borrowing costs increase, the corporate deals that are fueling the stock market but that also rely on massive amounts of debt become less profitable and thus less attractive. We do not know if any or all of these conditions will cause investors to unload stocks. However, the risks are in plain sight. As such, we will stay heavily weighted toward hedged strategies until we see an improvement in the environment for traditional strategies. In case our assessment is off, either in fact or in timing, we are maintaining a position in traditional strategies as well. Should the market continue to rise, our traditional strategies will capture a good portion of those gains. Our goal is to generate consistent positive returns regardless of market movements. That includes making money in rising markets as well as protecting in down markets. In this way, we seek to provide our clients with at least a little bit of predictability.

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

³ The choices, of course, go well beyond the realm of investing. But for purposes of investing, such choices include whether to invest at all; what type of investment strategy to pursue; how to react to a drop in the market; etc.

⁴ We believe media reports that the sub-prime troubles will not spread to other areas of the economy are shortsighted; everything is related.

⁵ All three U.S. car makers reported lower sales for June compared to the year ago period. Home Depot and Sears missed their earnings estimates due to a slowdown in their housing related sales.