

# MJB

Asset Management LLC

March 31, 2008

Dear Friends:

Last year when I picked up my son from summer camp, we made a side trip to a nearby Six Flags amusement park. Shortly after arriving, my son begged me to go with him on one of the park's rides, the somewhat innocuously named "Swiss Family Toboggan." I am not a big fan of amusement park rides in general and as an investment advisor, I am certainly not a big fan of taking risks for which I do not see adequate reward – and amusement park rides fit squarely into that category for me. Nevertheless, in the spirit of our father/son weekend, I acquiesced. I soon found myself strapped into a "raft" that was essentially a roller coaster in disguise, ascending an incline toward a clearly visible three story vertical drop that would end with a splash through a "pond." We inched slowly, inexorably forward, getting agonizingly close to the plunge. In my mind, we might as well have been going over the side of the Grand Canyon. The usual panic-driven thoughts started to kick in: What have I gotten myself into? How can I get out of this? I must have been crazy to listen to this kid, etc. Too late – we were going over the edge! But at that exact moment -- looking straight down and beginning a free fall -- I had a moment of clarity: I was strapped in and could see the bottom! Suddenly, I could let go and enjoy myself – and that is just what I did. What had changed? Only my perspective.

Turn to investors. Stock markets pose no risk of physical harm. Yet people are terrified of drops. As soon as the market starts to decline, investors ask the same questions: What have I gotten myself into? How can I get out of this? Etc. Declines come without warning and without knowable depths and durations. Many investors perceive a bottomless pit in which they will lose all of their investment. And unlike amusement parks, investors are not strapped in. They can get off the ride – i.e., sell and go to cash – and the temptation to do so can be overwhelming. Unfortunately, many investors choose to sell at the worst time -- after the market has dropped.<sup>1</sup>

We do not predict market bottoms,<sup>2</sup> but imagine how investors might react to market declines if they knew they were strapped in and could see a bottom. At MJB Asset Management, we invest using the equivalent of safety belts – we invest substantially in mutual funds that hedge against severe market drops. Our goal is to take much of the market out of the equation, to maintain a steady ride, to take the edge off of bubbles and troughs, so that our clients and we can "keep our heads" during times when many investors make sub-optimal decisions.<sup>3</sup>

---

<sup>1</sup> That would be the equivalent of getting on the roller coaster, going up the incline, sitting through the vertical drop, getting soaked in the pond and then -- just as the ride pulls in to the safety of the station -- screaming "I can't take it anymore" and jumping into the water!

<sup>2</sup> Or, for that matter, tops. No one we know of can with any consistency, at least not without a lot of luck.

<sup>3</sup> I.e., sell at the bottom and/or buy at the top.

We are in one of those times now, as the markets react to two major issues: (i) the sub-prime debacle; and (ii) the recession. The two intertwine; layoffs stemming from sub-prime losses have begun to accelerate and spread out from the financial sector.<sup>4</sup> In addition, energy and food prices are high; consumer sentiment is low. In short, it looks ugly out there. The social and ethical implications of these issues, e.g., joblessness, loss of homes, loss of confidence in the system, etc., are challenging and at times heart wrenching. The investment issues are more straightforward, summed up by paraphrasing the memorable tagline from the 1978 movie *Jaws 2*: is it safe to go back in? “Safe” is a tricky word, as it implies no risk. Yet investing always involves risk. Nevertheless, as the price of an investment declines, so does the risk of making the investment; at the same time, the potential for future gain increases. Our job as investment advisors is to identify in the present moment those assets that are relatively cheap and those that are relatively expensive, i.e., those with the potential for greater or lesser future returns. Currently, the credit market upheaval has sent huge numbers of investors to the safety of U.S. Treasury debt, bidding prices up and, correspondingly, driving yields down. In addition, the Federal Reserve has been lowering short-term interest rates to alleviate pressure in the credit markets and stimulate the economy. Lower rates will work; it is only a question of time. However, the immediate effect has been to make Treasury bills and money markets, i.e., cash and cash equivalents, very expensive right now. By contrast, the stock market has declined more than 10% from its recent highs; the prices of many high quality stocks have declined even more. At current prices, we believe the stock market offers greater potential for gain than both the fixed income market and many of the hedged strategies that we use. Therefore, we are gently increasing the equity positions in our portfolios.<sup>5</sup>

As mentioned above, we cannot predict market bottoms. However, we can observe current stock valuations – and they are attractive, even should the markets decline further. When markets are down and valuations are attractive, fear is one of the primary reasons investors hold back – fear of losing more, fear of being wrong, fear of trusting their instincts. We understand that fear; we have felt it at times (see above). That is why we invest with hedges at all times. The safety belts give us room to broaden our perspective to one of unlimited possibilities, unlimited choices, to one that lets us see that this is not a time to fear the stock market; it is a time to take advantage of the opportunities it presents.

Thank you for investing with MJB Asset Management. I look forward to speaking with you soon.

Best wishes,

Richard Bregman

P.S. I am enclosing a copy of *Wealth Manager* magazine’s listing of top advisors for 2007. MJB Asset Management is included on the list for the third consecutive year. We could not have received this recognition without your ongoing commitment. I am deeply grateful to you for your support.

---

<sup>4</sup> Citigroup and Merrill Lynch announced large-scale job cuts in March and early April. Other financial firms are likely to follow suit. United Airlines announced 1,100 job cuts last week, and several smaller airlines have ceased operations altogether.

<sup>5</sup> Of course, individual allocations will always depend on client-specific investment goals.