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“Waist up, no thighs!”
– Anonymous woman, summer 2011

Dear Clients and Friends:

Last summer, my wife and I took a short vacation to “red rock” country in southern Utah where among other things we took early morning guided hikes along the many beautiful trails in the canyons surrounding the hotel¹. Though for the most part the terrain was deserted, we occasionally bumped into other groups of hikers. On one such occasion, we stopped to take photos at a particularly scenic spot. A woman in the other group posed for a picture, sitting down near the edge of a ravine with a magnificent panorama behind her, and issued the following command to her friend taking the shot: “Waist up, no thighs!” The friend dutifully complied, changing the angle of the camera so as not to capture her friend’s lower half, and with that, a good portion of the spectacular landscape. It occurred to me that here was a person who wanted a picture – just not the whole picture.

It also occurred to me that many investors choose not to see the whole picture. Many see markets go up but choose not to see the risk that accompanies return; others see markets go down but choose not to see the opportunity for return that accompanies risk. When limiting their fields of vision in these ways, many investors make sub-optimal decisions: buy high (markets go up with no risk) or sell low (markets go down with no opportunity for gains). By contrast, investors who see the whole picture – both the risk and return – can follow a middle path and choose an appropriate level of market exposure for their current goals. In fact, our compatriot hiker was doing just that: she saw the opportunity for a beautiful photo as well as a perceived risk to that photo, and managed her risk by choosing to give up some of the natural splendor in exchange for a more controlled and, for her, satisfying outcome. In that regard, our fellow trekker showed the makings of a successful investor by choosing to focus on risk control.

At MJB, we too focus on managing risk, particularly the risk inherent in unpredictable markets. With risk smoothed out, we can then focus on finding and taking advantage of opportunities that arise out of unpredictable markets. For example, opportunities are now forming in European stocks. Though still early – as the European authorities have not yet agreed on a credible long-term solution to the Continent’s economic problems – it appears likely that Europe will make it through this iteration of economic malaise

¹ This was a return trip for us and a continued source of inspiration, as readers of our September 2010 letter will recognize.

(much in the way the U.S. did during the financial crisis in 2007-09). In the meantime, many European stocks appear undervalued. U.S. stocks also present opportunities. Corporate balance sheets are in good shape, yet the uncertainty of the U.S. economic recovery and the potential effects of a European recession are weighing on domestic stock valuations. As a result, valuations are reasonably attractive, if not screaming bargains. One place where opportunities are limited – and thus a place in which we are reluctant to invest at present – is the U.S. Treasury market, where interest rates are at historic lows and by definition prices are at historic highs. In all cases, we will remain vigilant in our efforts to mitigate risk while seeking appropriate opportunities for our clients' portfolios.

Returning to our hiker friend, I believe it is safe to say that no matter how the picture turned out, it is a representation of only a small part of her trip and by any account is not the same as being out in the canyons of Utah. So it is with investment reporting. Your quarterly reports are in the mail. They are a snapshot – nothing more and nothing less – of where your accounts stood in a single moment of time: in this case, close of business on December 30, 2011. Yet, investing is more akin to a movie, a *cinéma vérité*, as we travel on our journey through uncertain markets. Many more photo opportunities and moments in time await us; I look forward to sharing them with you.

Thank you for investing with MJB Asset Management. I wish you the very best for the upcoming year!

Sincerely,

Richard Bregman