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Richard Bregman, *Chief Executive Officer*

November 26, 2012

"Just a spoonful of sugar helps the medicine go down, in a most delightful way."

-- Mary Poppins

Dear Clients and Friends:

On the way home from a movie this weekend, my wife and I walked through Times Square, where we passed (among other things) the New Amsterdam Theater, which is currently housing the Broadway production of "Mary Poppins." The show, as does the 1964 film starring Julie Andrews on which it is based, has a wonderful musical score that includes "Spoonful of Sugar," in which Mary Poppins discusses the joys in what appear to be overwhelming tasks and how focusing on those joys can move the task along. As we continued walking, we also passed one of the several electronic "ticker tapes" scrolling headlines, sports scores, etc., across the face of a brightly lit office tower. Of course, the financial news that flashed across the tape was about negotiations over the so-called Fiscal Cliff, i.e., the combination of (i) the expiration of the so-called "Bush-era tax cuts" on December 31st and (ii) the $110 billion in cuts to federal spending scheduled to begin the next day, January 1st. And then—wham! —it hit me: it is all about a spoonful of sugar! At its core, the cliff is strong medicine for our ailing economy, as it will increase much needed revenue and reduce much bloated spending. However, it is very bad-tasting in its present form, as it will likely put a noticeable crimp in most of our pocketbooks and drastically reduce government spending in critical areas, perhaps even leading to an economic slowdown. Given that the cliff is a political creation that will be resolved (or not) by political compromise, it all comes down to whether our political leaders can devise a political "spoonful of sugar" to help the medicine go down more easily.

With respect to your investment portfolios, there is little to do at this time specifically with respect to the cliff. I say this notwithstanding the fact that the media is loaded with what I call "cliff content" – speculation stemming from the lack of political clarity surrounding the supposed dangers of "going over the cliff." The "cliff" analogy stems from the belief that the above-mentioned combination of higher taxes (and thus less consumer spending) and lower government outlays will send the economy over a cliff, leading to an economic slowdown at best and a recession at worst. Keep in mind, there is no way to actually know the total effect of going over the cliff. Nonetheless, published estimates show a drain of anywhere from -2% to -4.5% on GNP (Gross National Product). Pundits are beginning to predict that going over the cliff will lead to a recession. Corporate CEO's are reportedly holding off on deploying capital for new projects because of the "uncertainty" surrounding the cliff. The popular financial media are beginning to offer "strategies" for individual investors in anticipation of the cliff, virtually all of which boil down to accelerating taxable income into the current tax year before tax rates go up.

We prefer facts over speculation. It makes little sense to us to put the "tax cart" before the "investment horse." We have no idea what the political resolution to the cliff will be—perhaps it will include higher income tax rates, or limits on tax deductions and write-offs, or higher payroll taxes, or shifting of tax brackets. Perhaps our political parties will manage to simply "kick the can" down the road and maintain the status quo for a few more years. And of course, everyone's tax status depends on their own unique tax circumstances. Given such uncertainty, I am loathe to, for example, sell high dividend paying stocks and incur a *certain* taxable gain this year, solely to avoid a *potentially* higher tax rate on dividends next year. We will make necessary and appropriate changes to our clients' portfolios when we know (as opposed to speculate about) the new investment environment. In the meantime, as we always do, we are maintaining positions in hedging strategies to blunt any volatility stemming from negative market reactions to the ongoing cliff negotiations.

Although the actions of our elected leaders in bringing us to this point have not inspired much confidence, we do not believe the past is necessarily prologue. We will continue to closely monitor the negotiations between Congress and the Administration to see if they address the fiscal cliff, if not in a "most delightful way" then at least in a way that is tolerable for the bulk of the citizenry.

I hope you enjoyed a restful Thanksgiving and wish you well as we continue through the Holiday season.

Sincerely,

Richard Bregman