MJB ASSET MANAGEMENT

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Richard Bregman, *Chief Executive Officer*

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Dear Clients and Friends:

"It's baa-aack!"

Ghosts? Perhaps, but we're talking about volatility.

Please forgive my maligning of the well-known line from the 1986 movie "Poltergeist II: The Other Side." However, in the spirit of the Halloween season, it occurs to me that just as young Carol Anne Freeling in the movie was warning about the return of ghosts from her old home, so the markets are warning us that volatility is still around to haunt the investment landscape. Like skeletons popping out of the closets, we have seen volatility surprise the markets with plummeting oil and commodity prices, the accompanying rout in energy stocks, the decline in China and developing country stock markets and the current upheaval in pharmaceutical and drug company stocks. Mix in the drama of the Fed's indecision on the long-awaited interest rate "liftoff" and we have a potent witches brew of uncertainty that is moving investors to almost maniacally enter and exit markets as they vacillate between the comfort of safe havens (U.S. Treasuries) and the thrill of finding the next huge opportunity (startup digital companies). The result has been ghoulish returns through September 30th, as every major stock market index is down year to date and down between 5% and 10% for the third quarter alone.

Our recent performance has been below expectations; most of our client portfolios are down year to date along with the markets. We have long prided ourselves on mitigating the effects of down markets and do not take these performance figures lightly. In reviewing the performance figures, our hedging strategies have generally worked; most of the underperformance has come from our more traditional positions, i.e., equity mutual funds. Several of our long term holdings have exposure to the energy sector, and have performed more in line with the energy industry than with the markets as a whole. I want to share with you what we've learned and what we are doing in response.

Our hedging strategies by definition should always trail upward markets (and should always beat downward markets). To make up the drag that hedging strategies place on a portfolio during a rising market, we need our non-hedging managers to pull their weight, i.e., to rise with the markets. Some did and some did not. To avoid this situation in the future, we are making the following adjustments to our overall investment strategy:

- We are generally reducing our reliance on active managers and increasing our use of passive/index strategies in certain parts of the US markets. We continue to expect our active managers to outperform over the long term. However, should they not, we want to make sure that we get the market return for a portion of our portfolios.

- We are limiting to no more than 5% our positions in those individual managers whose strategies – while successful in the long term – can lead to significant short term deviation from the market.

The net result of these changes should be portfolios that are more closely attuned to market movements yet will still have protections in place against strong downturns.

Thank you for investing with MJB Asset Management. My door is always open if you would like to discuss your portfolio or any other matter. I look forward to hearing from you.

Sincerely,

Richard Bregman