MJB ASSET MANAGEMENT

900 Third Avenue, New York, New York 10022
212.333.3733

www.mjbam.com
info@mjbam.com

Richard Bregman, *Chief Executive Officer*

April 21, 2014

"The mind of man is capable of anything—because everything is in it, all the past as well as the future."
— Joseph Conrad, *Heart of Darkness and the Congo Diary*

Dear Clients and Friends:

Imagine descending in an airplane, looking out the window at a flat, green expanse as far as the eye can see, landing at an "airport" that is little more than a single airstrip carved out of jungle vegetation, driving to a large river and boarding a motorized canoe where you are advised to keep your hands inside because of the Piranhas, and embarking on a 45 minute ride downstream to your ultimate destination: a remote jungle lodge with no roads, no phones, no TV, no internet and no Wi-Fi. *Heart of Darkness*? *Apocalypse Now*? No, just our first day on a recent vacation in Peru.

Peru might be best known for the extinct Inca civilization and that dynasty's incredible feats of engineering, expressed most famously in the ruins of Machu Picchu in the Andean mountains. However, Peru also is home to a vast swath of Amazon jungle.[1] As expected, we saw all manner of exotic plants and animals on that first day. Nothing, however, prepared me for what the night sky offered while we rode on the river in the near-total darkness of the jungle. In addition to very bright constellations, including (given our location below the Equator) the Southern Cross, there, in the middle of it all is a long, vertical cloudy stripe running almost from the horizon up to the middle of the sky. The realization suddenly hits: we are looking at our galaxy, the Milky Way.

What perspective! In nature, with none of the so-called conveniences of modern life, shrouded in pitch blackness save for the light of the stars, the Universe of which we are a small part comes into view, the connection of the past, the present and the future beautifully illuminated by the same stars upon which ancient civilizations gazed and from which future generations can seek inspiration. We see how "the mind of man is capable of anything," with "everything in it, the past as well as the future." Our connection to a more industrialized society reminds us of a distinguishing characteristic from the other living beings in the jungle: the ability to analyze the past and make conscious choices in the present that help create our future. Returning to less cosmic thoughts, I contemplated the reason it took fifty-something years and a trip to the

[1] Peru is also the native home for quinoa (of which there are more than 1,000 local varieties) and potatoes (of which there are more than 1,800 local varieties).

Amazon for me to see the Milky Way. The answer goes back to industrialization and the conveniences of modern life: the lights in the towns and cities of the populous Northeastern United States "pollute" the night sky and obscure our view of all but the brightest stars. Yet the Milky Way is still there, and we are still part of it.

Investors, too, are part of a broader investment environment and make choices that help create their future. And they too can "pollute" their view of an investment landscape that might be clearly visible from a different perspective. Such "pollution" also comes from "the mind of man" -- typically fear or greed, i.e., being fearful when there is little to fear or being greedy when you should be fearful.[2] The current landscape features a slowly growing U.S. economy, a slowly improving job market and a buoyant stock market. The Federal Reserve has been cutting back part of its economic stimulus program by reducing the amount of bonds it has been buying,[3] thus slowly returning power to the market to determine medium and longer term interest rates. At the same time, the Fed is keeping short-term interest rates low for the foreseeable future.[4]

From our perspective, an environment with a growing economy and a Central Bank committed to keeping short-term interest rates at historical lows favors high quality stocks over most bonds. Polluting the view is the fear among investors that at current levels the market can go no higher after a five-year bull market from the lows of March 2009. While it is true that stocks are generally more expensive now than in 2009, that fact alone does not mean a large correction is "overdue" or imminent. At present, we are maintaining our exposure to the equity markets; in fixed income, we continue to prefer shorter-term high yield and/or distressed bonds over the core government and corporate bond market. Markets, of course, are inherently unpredictable; no one knows yet exactly where they will head. The current risk/return tradeoff might change at any time, particularly if longer-term interest rates begin to increase rapidly. We continually monitor the investment environment for any such changes and maintain positions in hedging strategies to dampen any such unexpected volatility in the markets.

Change can arise rapidly, at unexpected times and from unexpected sources. Sometimes the change is due to a simple change in perspective. That is how it was for me in the Amazon. In my experience, broadening perspectives is always healthy. It is with that approach that we manage client portfolios.

Thank you for investing with MJB Asset Management. We are grateful for your continuing support. Best wishes for the spring (autumn in the Southern Hemisphere!); I look forward to hearing from you and being in touch.

Sincerely,

Richard Bregman

---

[2] I am paraphrasing Warren Buffet from his op-ed piece in the New York Times (October 18, 2008), in which he describes his investment philosophy as, "Be fearful when others are greedy, and be greedy when others are fearful."
[3] The bond-buying program is called Quantitative Easing. By buying bonds in the open market, the Fed pushes bond prices up; this has the mathematical result of lowering the bonds' yields, i.e., their effective interest rates.
[4] The Fed has always controlled short-term interest rates; market forces generally determined longer-term rates until the Fed's massive intervention following the fiscal crisis in 2008. Notwithstanding its scaling back, we believe the Fed will now permanently claim the power to intervene in the bond markets as a standard policy tool.