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Richard Bregman, *Chief Executive Officer*

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Dear Clients and Friends:

While visiting Cape Cod this summer, my wife and I stopped at a seaside restaurant and sampled a local twist on a standard dish: lobster nachos.[1] It happened to be my second helping of cheesy chips in as many days, and helped me notice something to which I had never devoted much attention: nachos – no matter the variety – typically arrive with guacamole and sour cream. Though I am always happy to see guacamole, such is not the case with sour cream, and I began to wonder, what exactly is it doing here? It occurred to me that perhaps the sour cream is included to moderate the spiciness of the nachos, i.e., the jalapenos and/or other peppers that lie unseen beneath chips, melted cheese, perhaps some chili and who knows what else. When you bite into that hidden cache of spiciness and find your mouth suddenly on fire, it is nice to know you've got a dollop of sour cream to cool your palate.

For investors in the stock market, unexpected market dips are like biting into an unseen jalapeño: if you have nothing to ease the jolt, you are likely to feel quite uncomfortable. You might even stop eating. From a culinary standpoint, the sour cream (and perhaps the guacamole if it is not too spicy itself!) is the counterweight that allows you to continue eating the nachos and enjoy your meal. From an investing standpoint, hedging strategies that take the edge off of inherent stock market volatility are the counterweights that allow investors to continue investing and get the most out of their efforts to build long term wealth.

At MJB Asset Management, building a portfolio without hedging strategies is like serving nachos without guacamole and sour cream. We expect to hit a hidden jalapeño from time to time—we just do not know exactly when, how large it will be or for how long the burning sensation will last. We do not want our clients to figuratively stop eating, i.e., to get out of the market, so we always serve guacamole and sour cream with our portfolios: we invest at least one-third of every client's portfolio in funds that employ hedging strategies designed to take the edge off of the market's volatility, thus smoothing the ride for our clients and ourselves.[2] Reducing extreme portfolio movements helps limit the unhealthy urges that creep up on investors to sell at extreme market lows and/or buy at extreme highs. The result is a portfolio that captures much, though not all of the upside during bull markets and limits declines during

[1] Think of your standard large platter of chips, cheese, jalapeños, beans and salsa—then add 7 ounces of fresh lobster.
[2] We invest side by side with our clients in all of the funds that we recommend for their portfolios.

bear markets. We believe that over time, the ability to limit large losses is one of the most effective ways to build long-term wealth.

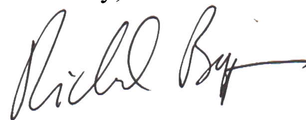
At present, even though major U.S. stock indices rose about 6% in the third-quarter, we find much to guard against. The market run-up has contributed to a somewhat surreal feeling in the economic environment. Developed nations are now fully addicted to Central Bank-manipulated low interest rates. Fed Chairman Ben Bernanke is obsessed with bludgeoning interest rates (both short- and long-term) into the ground, announcing he will hold short-term rates near zero through 2015 and do whatever is necessary to keep longer-term rates as low as possible for as long as it takes the economy to come out of its present state—which he is now linking to a reduction in the rate of unemployment.[3] In Europe, the ECB has announced it will buy *unlimited* amounts of short term bonds to keep the Euro intact, even as Greece and now Spain head toward defaults on their sovereign debt obligations. Less developed countries—the so-called "emerging markets" that had taken the baton of global growth while the more developed nations slogged through their respective economic woes—are now experiencing their own economic slowdowns as governments in counties such as China and Brazil futilely attempt to create "soft landings" for their overheated economies.

Economic signals remain mixed. Corporate earnings are not particularly strong and manufacturing activity is not particularly robust. On the positive side, consumer confidence is rising; unemployment has been steadily—if painfully slowly—declining, with the most recent report showing an unemployment rate below 8% for the first time since the depths of the financial crisis four years ago;[4] and housing finally appears to have stabilized, though substantial impediments to a recovery remain in place.[5]

Is it possible for the markets to continue their upward trend without interruption? That is food for thought. We do not know the answer and for that reason, we are serving our traditional nachos with our versions of guacamole and sour cream—we are maintaining traditional positions in stocks and bonds to take advantage of further market gains while mixing in hedging strategies to protect our client portfolios against potential market downdrafts.

Thank you for investing with MJB Asset Management. As always, I wish you the very best!

Sincerely,



Richard Bregman

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[3] Mr. Bernanke appears uninterested in the increasingly devastating side effects of his policies, including: 1) savers, punished beyond all expectations, must now take excessive risk to find yield on their investments (translation: high dividend-paying common stocks, emerging market bonds and/or junk bonds); and 2) financial institutions themselves cannot charge sufficiently high interest rates to sustain longer term profitability. The result is a threat to two pillars of our economy: consumer spending and commercial lending,

[4] Query: at what point will Chairman Bernanke determine the economy, as measured by the employment figures, is sufficiently "healthy" to allow interest rates to move to their market levels? Will he go back on his promise to keep rates low through 2015? How will markets react to the withdrawal of the elixir on which they have become overly dependent?

[5] The impediments include the large remaining inventory of unsold homes and banks' unwillingness to extend credit to many potential homeowners. *New York Times*, Mutual Funds Report, p. 9, 12 (October 7, 2012).