



900 Third Avenue, New York, New York 10022
212.333.3733

www.mjbam.com
info@mjbam.com

Richard Bregman, *Chief Executive Officer*

July 23, 2014

Dear Clients and Friends:

Perhaps the connection I felt between the darkening geo-political situation overseas and the darkening skies here in New York City was simply an eerie coincidence. Thunderstorms, after all, are a regular part of summer in New York. Yet the torrential thunder and lightning storm in which I found myself a few days ago brought my thoughts to the unsettling events overseas as well as the reactions of the investment markets. It was a reminder that even though thousands of miles separate us from the conflicts, we all feel the effects in some way, directly or indirectly.

Our hearts go out to all those affected by the violence in the Middle East and Ukraine. As individuals, we react to the dismaying loss of human life at the hands of other humans with sadness, compassion, empathy, anger, frustration. Yet we also are investors making investment decisions, and in that capacity we must put our emotions aside. Thunderstorms are not predictable in their timing, severity and duration. Nor are geo-political conflicts and their potential effects on markets.

At MJB Asset Management, we do not predict the future. Rather, we observe the current investment environment and make decisions based on current valuations. The geo-political environment today is certainly loaded with potential risks. At the same time, the economic environment features comparatively low interest rates and comparatively strong corporate balance sheets and profitability. Unemployment, though decreasing statistically, remains uncomfortably high, particularly as the statistics do not accurately reflect those who have given up looking for work and those who are severely under-employed in part time jobs. Inflation remains comparatively subdued, though some areas of the economy are showing signs of increasing prices. In our view, the current investment environment continues to favor high quality stocks over high quality bonds, and we have continued to position our client portfolios to take advantage of those conditions.

As with the risk of summer thunderstorms, the risks in the market remain unpredictable, even when the consensus says otherwise. I have a good friend who always reminds me that when more than a few people are saying the same thing, they might be exaggerating, but they are not all hallucinating. Case in point: interest rates and inflation. The market has no shortage of investment professionals and pundits

who insist that inflation is poised to explode and that interest rates must rise, particularly as the Federal Reserve continues to wind down its stimulus programs.¹

Though we will not predict the future, we are not blind to the concept of seeing a potential change approaching and preparing for the change. We are well aware of the potential for an increase in inflation and/or interest rates; as mentioned above, we see pricing pressures in parts of the economy. However, in our view those issues are the market equivalent of a storm system on the horizon. Storm systems have life cycles and eventually dissipate. We are not discounting the threat that rising interest rates and/or inflation can pose; however, while it might be raining cats and dogs on the horizon, the storm might (or might not) dissipate before having an effect on our portfolios. As such, we are not positioning the portfolios for a definitive increase in inflation or a definitive increase in interest rates. We are, however—as we always do (unless specifically directed otherwise by our client)—incorporating a variety of hedging strategies in all of our client portfolios to protect against a sudden market thunderstorm, whether it be due to interest rates, inflation, geo-politics or some other fear-inducing market event. The hedges smooth out sudden negative bumps in the road and provide us with the time to assess appropriate courses of action and avoid making potentially sub-optimal decisions during times of market upheaval.

As I made my way through the storm last week, it struck me (so to speak) that thunderstorms also set the stage for rainbows. We hope for peaceful outcomes in the conflict-ridden areas of the world. We continue to watch the investment weather and maintain our investment umbrellas close by so that in the event of a market storm, our portfolios will stay relatively dry until the rough weather clears.

Thank you for investing with MJB Asset Management. My door is always open and I look forward to hearing from you.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Bregman", with a long horizontal flourish extending to the right.

Richard Bregman

¹ This is interesting to me. If the Fed winds *down* its stimulus efforts, won't that likely lead to a slower paced expansion of economic activity, which in turn should lead to *lower* inflation pressures?