

## *Introduction*

We are pleased to provide you with the Fall 2006 issue of Abner, Herrman & Brock's (AHB) newsletter. Our goal is to inform you about recent events at AHB and how they impact the services and solutions we offer you.

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## “The AHB Experience”

Adhering to its history of more than 25 years, Abner, Herrman & Brock (AHB) is an independent, employee owned investment firm that combines client-focused service with the management of tax efficient stock and bond portfolios. Portfolios are customized to achieve the investment objectives of high net worth individuals, families, endowments & foundations and retirement plans. AHB functions as a “traditional” investment counselor providing unbiased guidance on asset allocation and risk tolerance levels to help clients meet their investment objectives. Our team-based investment process coupled with the camaraderie of our organization stand in sharp contrast to much of the financial services industry.

### What does this mean for our clients?

- Clients receive personalized investment solutions
- Clients receive easy to understand communications regarding the investment management of their assets
- AHB professionals work closely with the client's financial advisors, attorneys, accountants and other trusted professionals
- We encourage clients to speak and meet with us on a regular basis. This communication enables clients to benefit from the investment experience and knowledge of our investment professionals
- Client service professionals are always available to help serve the varied needs of clients

**The AHB Experience means that each client is important and their needs are met !**

## *Investment Research*

### **A Global Perspective**

The growing interdependence of global economies is reshaping companies and industries around the world. The advancement of communications technology coupled with the economic development of countries, such as China, India and Russia, have reshaped the way companies do business. This change is having profound implications for investment research. The AHB Investment Policy Committee recognizes that an integrated, global view of the economic and investment landscape is now critical to understanding any single company or industry. Even if multinational corporations are headquartered in a particular country, their profits or losses depend on markets around the world. Therefore, an investment firm's ability to analyze a company depends on understanding it within a global context. This means evaluating companies relative to their global competition and determining how globalization affects their profitability and growth potential.

Fundamental stock research is now approached with greater emphasis on the prospect for a company's global growth. To differentiate AHB research we aim to identify long term global trends that have the potential to add significantly to investor returns.

AHB's investment research consists of a number of components. Before narrowing our focus, a detailed evaluation of domestic and international economic trends is reviewed. Next, we employ macroeconomic and sector analysis as well as quantitative screens to pinpoint industries with greater than expected earnings growth potential. We continue to condense the list of candidates based on valuation, return on equity and other Financial metrics. We then perform a rigorous analysis

of these companies which includes reviewing the financial statements and speaking with management to determine the company prospects and assess investment potential. The investment team seeks to identify one or more catalysts which will provide the company with an ability to grow earnings at a faster rate than is forecasted by others in the investment community.

Following the purchase of a company's shares for investment, AHB's Investment Policy Committee remains attentive to company news and financial reports while monitoring the progress. A significant change in either the global macroeconomic environment or a company specific change will trigger a decision to sell an investment. Often the change that we expected to impact the company's earnings has occurred and the stock price appreciation has been realized. Alternatively, the decision to sell an investment may occur because the anticipated change did not develop as expected or did not impact the earnings as expected. Additionally, the global economic environment may have changed therefore requiring a shift of investments from a sector or industry. It is through this proprietary AHB Investment Process that we expect to identify investments for client portfolios that will achieve above average returns.

In sum, the objective of the AHB Investment Policy Committee is to discern which research data will have meaningful impact on stock values. At the same time we apply distinctive research analytics encompassing a global investment outlook to help identify superior equity investments.

## *Client Services*

### **Behind The Scenes**

AHB has enhanced the services it provides to clients which will further improve our communication with you. Over the past year we have expanded the number of people at our firm that communicate with clients. These individuals have worked hard to increase our services and make you more aware of the growing capabilities of Abner, Herrman & Brock.

As an example, portfolio managers are more active initiating as well as responding to your inquiries regarding portfolio holdings and investment experience. We have implemented a program whereby AHB portfolio managers will continue to reach out to you to further improve your knowledge of our investment philosophy and process and specifically how it benefits your investment portfolio. We feel that today's ever changing

investment climate implores us to require those making investment decisions on your behalf to communicate directly with you, the "owner of the assets". We believe this to be a minimum expectation of your investment manager. We are making a strong effort to enhance your investment experience at AHB in every possible way.

Please feel free to contact us if we can be of any service and look forward to us contacting you. We would certainly appreciate speaking with you either on the telephone or in person in an effort to keep us informed of any changes in your investment objectives or risk tolerances.

## Conferences

### Neil Klein, Key Speaker at the Municipal Bond Summit

**Neil Klein**, Managing Director and Sr. Fixed Income Portfolio Manager was a featured speaker at the Municipal Bond Summit sponsored by The World Research Group and the Wall Street Journal. This summit is considered one of the most important municipal security conferences of the year. The event targets investment firms, rating agencies, research organizations, traders, state and local government officials as well as the media.

Speakers addressed the many issues facing the municipal bond markets today. Topics included tax and trading issues, risk management, new products, performance attribution and municipal arbitrage to name a few. The day long event included interactive panel discussions and presentations. The presenters represent the industry's "best and brightest" municipal minds.

Neil, participated in a panel discussion entitled- "Municipal Bond Valuation: How do Municipals Price Relative to Other Instruments?" The panel covered such topics as current pricing trends, the shift from US Treasury bonds to municipal securities, inflation, interest rates and the impact of natural disasters on municipal valuation. The presentation was followed by a lively round of Q & A from the audience.

Neil spent the remainder of the day with colleagues and peers while attending the other presentations and panel discussions. The most notable presentations included Portfolio Considerations for Tax Sensitive Clients, Municipal Arbitrage, and The Challenges Effecting Today's Blended Fixed Income Portfolios.

## Employee News

### AHB Adds to its Staff

- **Donna McCullough** our Marketing/Business Development Coordinator joined the firm in 2006 to manage and coordinate AHB's efforts to enhance its services to the Private Client, Endowment & Foundation and Trust communities. She is also responsible for the creation and modification of all marketing literature and oversees the public relation efforts, event planning and maintenance of the firms' website. Her background in asset management includes positions as a senior product associate at UBS, followed by her position as a marketing associate at John A. Levin & Co.

- **Jessica Leveritch** joined AHB in 2006 to provide additional support for client services and portfolio administration. Prior to joining AHB, Jessica worked in Property Management for Manhattan Skyline Management and E.C.R Realty Corp. Jessica enjoys dancing and creative arts.

## Topics to Consider

### Rising State Taxes Increase Attractiveness of Municipal Bonds

While the Federal Government has been focused on reducing taxes, state tax rates have been moving in the opposite direction. Many states have increased tax rates meaningfully on their top earning residents over the past few years. These higher income tax rates make tax free municipal bonds significantly more attractive than taxable bonds for those in the top tax brackets.

New York, North Carolina, California and New Jersey among others now have combined local and state tax brackets for high earners that range between 7% and 10%+. As tax rates increase, municipal bonds become more attractive. Consider this..... Many individuals are in a 42% + combined incremental tax bracket; accordingly, a municipal bond that has a

yield to maturity of 4% offers a tax equivalent yield of 6.9%. That compares to taxable bond rates of approximately 5.25% - 5.75% that are currently available in the market.

In order to obtain the full tax benefits, it is important to own bonds that are tax free in your state of residence and not subject to the Alternative Minimum Tax (AMT). Municipal bond investors can be negatively affected by AMT if they own bonds issued to finance certain private endeavors such as housing projects or airports. For these reasons it is advantageous to work with an experienced and knowledgeable municipal bond manager that has the ability to invest in state specific, non AMT municipal bonds.

**In The News**

**Abner, Herrman & Brock featured in NJ Business Magazine, August 2006**

**Jersey City: An Appetite for Development, State's Second Largest City in Midst of Building Boom**

**by Anthony Birritteri, Editor In Chief, NJ Business Magazine (Reprint)**

When the lease was up on their lower Manhattan office headquarters in October 2004, the principals at **Abner, Herrman & Brock, Inc. (AHB) Asset Management** didn't consider moving to Jersey City. According to **Kevin E. Strauss**, managing director, everyone had the old image of Jersey City on their minds - a run-down metropolis in decline. When a broker showed them what actually existed, Strauss and his partners were in awe. "We didn't understand the scope of what was here. Almost two years later, AHB is expanding its client base in New Jersey as well as in New York. What's even better is that clients now don't mind visiting the firm's 5,000 square feet of Class A space at Harborside Financial Center 5 on the waterfront, as opposed to visiting their old Manhattan office.

"With improvements in technology, it's no longer vital to be located near the stock market or near the Wall Street Community, says Strauss who adds that for one-half to one-third the

cost of office space in New York City, AHB also had the opportunity to customize its new space from scratch in Jersey City.

Strauss' comments reflect the views of many businesses that are leaving Manhattan to take advantage of what Jersey City has to offer: less expensive and newer commercial office space; a skilled workforce that is consistently being developed by the area schools such as St. Peter's College, New Jersey City University and Hudson County Community College; quick and convenient access to Manhattan via four PATH stations, the Holland Tunnel, four ferry routes provided by NY Waterway and one provided by New York Water Taxi; access through the region via the Hudson-Bergen Light Rail Transit System; and a flourishing cultural community with art studios, restaurants and various ethnic groups.

**AHB's Senior Portfolio Managers continue to receive national coverage in the following media outlets:**



**Once again, we would like to thank you for your confidence in our investment management services and for the clients you have referred to us over the past year.**

**Abner, Herrman & Brock Inc.**

*Founded in 1981, Abner, Herrman & Brock Asset Management manages stock, bond and custom balanced portfolios individually structured to assist each client in achieving their investment objectives. Stock portfolios are managed utilizing a Core Equity philosophy, investing in both large capitalization value and growth disciplines with an objective of long-term, after-tax appreciation and below market volatility. Portfolios are diversified across economic sectors, industries and companies. Bond portfolios are managed to provide a high rate of current income. Portfolios are invested in staggered maturities of U.S. Treasury, government agency and investment-grade corporate bonds and where appropriate, investment-grade municipal bonds. Portfolio managers are available to meet with clients upon request.*