

CAZ Investments

Quarterly Letter

“And the Beat Goes On”

The first quarter of 2014 can best be described as pleasantly boring, because not much really happened. Markets pulled back to start the year and then bounced back to give a fairly flat result for the quarter. The weather was bad enough to have a major impact on the economy. Geopolitical conditions escalated with the conflict in Ukraine. Job growth waned as companies digested the impact of weather, rising healthcare costs and additional regulation. Investors have shaken all of these items off as temporary, though. Interest rates actually declined sharply during the quarter, which usually indicates a pending economic slowdown, but investors have also shaken that off as temporary. Hmm...seems like a common thread is beginning to appear.

The obvious question one should ask with the information presented above is, “Why are investors willing to shake off seemingly negative events as temporary?” One very logical answer would be to state that it is just that, temporary. Another possible answer would be that the market is really not seeing reality and is being cavalier. The most likely answer is that investors simply feel trapped. They cannot stand to sit in cash and earn virtually no return so they just “hold their noses and keep buying stocks.” The phrase coined by many investors is “TINA” meaning there is no alternative. Things are not negative enough to create a lot of stress for investors, and companies continue to operate fairly well so investors view their alternatives as being limited, and they just keep putting money to work in stocks. The beat just keeps going on, and the game of musical chairs is prolonged as the music does not stop.

There is nothing wrong with investors following this path, as they have been rewarded for doing so, unless they are ill prepared for when the music does indeed stop. Unfortunately, most investors never seem to appreciate the reality that stocks always go down much faster than they go up. We have used the phrase many times over the years and it is worth repeating, sell when you can, not when you have to.

We continue to be impressed by the resiliency of the markets, and corporate profits continue to be reasonable. Our only complaint at this point is valuations as we have discussed significantly in our last two letters. It is hard to find stocks worth buying at these valuations, but the companies themselves remain attractive. This means we remain a lukewarm “2” on the CAZ Scale. We are not suggesting investors head for the hills but we continue to encourage clients to reduce equity exposures to an underweight position and find alternatives that will not correlate with the stock market.



Reduce Correlation

What do we mean by reduce correlation? Simply stated it means find assets that will not move in sync with the stock and bond markets. In order to reduce correlations we have to look outside of the traditional world of stocks and bonds, or find opportunities that will move opposite of those traditional investments. One of the reasons our clients were so much better off during the great recession than typical investors was due to the fact we were willing to be innovative and find investments that would move independently of the traditional markets. We strongly encourage investors to consider making similar moves at this time.

The decline in interest rates in the first few months of this year has now created what we believe to be one of the most compelling risk/reward scenarios we have seen in the last eight years. The 10 year U.S. Treasury is now yielding less than 2.5%, and we believe that a significant increase in interest rates is inevitable over the next several years. We reiterate that we believe that the CAZ Interest Rate Opportunities Fund is by far the best positioned vehicle to profit, and protect a portfolio, from this likely rise in rates. If you are not invested in the Fund we would encourage you to learn more about the vehicle. This is a perfect example of an investment that will have negative correlation as well as add tremendous diversification and potential protection for a portfolio from market stresses.

In our last letter we talked about the significant dislocation that has occurred in “Real Assets.” After a sharp bounce, the values of many of these assets have declined again and are approaching their multi-year lows. We have specifically targeted the value we see in Metals prices and will launch a fund on June 1 that is built to profit from a recovery in prices in this area. Quite simply, when we see prices for real assets such as Silver decline from \$50 to \$18, we become very interested! Just because prices decline does not justify an investment, but it certainly causes us to start investigating to determine if there is an opportunity to make money. In this situation we believe the answer is definitely yes, and we are structuring the CAZ Metals Opportunity Fund to benefit from an increase in prices. Expect to hear more from us in the next few months about this opportunity, and let us know if you would like to investigate how this Fund is structured. Our principals and shareholders are the largest investors in our vehicles, with more than \$100 million of our own money invested alongside you. Our ultimate litmus test is that we do not make an investment unless we are willing to put our money to work and this is an area where we are excited to invest our capital. Not only do we think that we will make substantial profits, we also like the fact that the Fund will likely have very little correlation to the overall stock and bond markets. In actuality, the vehicle may very well have an inverse relationship to traditional markets. We believe the profit opportunity and diversification benefits make this a compelling and timely opportunity.

Even though the 1st quarter was fairly quiet from a market standpoint, it was quite active from an internal operational and service perspective. We rolled out the new communication tools to very positive feedback from clients. The online portal, Sharefile, electronic signature via Right Signature, new Alternative statements, brand new www.cazinvestments.com website, along with new client website access via Black Diamond have all been released as resources, and we



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are thrilled with the results thus far. As stated many times, these are new tools designed to benefit you, and we want your input. Whether you see something you like or something you would like to see improved, please let us know. Our client service team is standing ready to assist you in integrating these new tools into your information flow.

We will continue to strive to deliver world class client service and Access to Innovative Investing, and we appreciate your loyalty. Our team continues to grow, and we hope that you will have the opportunity to meet all of the new team members in the near future. We have some very exciting developments we are working on over the summer so stay tuned for more details as we enter the 2nd half of the year. It is hard to believe that we are almost at the midway point of the year, and we hope that you have a thrilling summer with new experiences and quality time with family. Please do not hesitate to let us know if there is anything we can do for you. We look forward to seeing you soon.

