

CAZ Investments

Quarterly Letter

“No Time for Complacency!”

A quiet calm before the storm

The third quarter of 2014 did not produce much movement in the well-known large company market indices, and volatility was modest in the eyes of most people. As it turns out, it truly was the calm before the storm that ripped through the markets in early October. At the time of this writing the markets have snapped back from the sharpest correction experienced in the last few years. The last week of the month could be interesting, and we maintain our cautious outlook.

For the third quarter itself, the U.S. market averages were the epitome of a mixed picture. The large company indices all traded slightly higher while the mid/small company indices sold off quite sharply, including a more than 7% selloff in the Russell 2000. International markets were down across the board with Europe also declining by approximately 7%. Concerns about a slowing economy around the world impacted the smaller companies first and then found their way to large companies in October. The U.S. Dollar increased dramatically against most world currencies in the third quarter. This contributed to a sharp selloff in commodity prices across the board, with Oil prices dropping by more than 10% during the quarter and more than 20% as of the date of this letter.

The time to reduce correlation is now

The cracks in the ice that we see forming compel us to reiterate our thoughts to you that the time for excessive risk taking is likely behind us. We remain convinced that the combination of peak profit margins, full company valuations and modest economic growth could lead to very mediocre returns for stocks for the next 3 – 5 years. This does not mean solid returns are impossible to find. We just have to think “outside the box” with at least a portion of our assets.

We remain a “2” on the CAZ Scale, but we remain much closer to a 1 based on our concerns. We continue to emphasize low correlation as our major theme as we feel strongly that investors are going to benefit from finding return streams that do not require a rising stock market. There are a lot of ways to make solid returns in this world, sometimes they are just harder to find than others. This is one of those times, but we have



identified several outstanding opportunities to achieve non-correlated returns. As we are consistently the largest investors in our own vehicles, we are only going to allocate our capital to vehicles that we believe offer great risk/reward. There are two such vehicles that we will be introducing in the next few months. The timeline for both vehicles may be fairly short so please be on the lookout for correspondence.

As a reminder, we opened the Metals Opportunity Series to specifically take advantage of the significant dislocation that has occurred in the metals sector. After a significant increase in metals prices the first month the Fund was open, prices have retreated sharply, and are now below where we launched the vehicle. When we see real assets decline by more than 60% we become very interested. We believe there is an opportunity to deliver sizeable capital appreciation from this dislocation, while minimizing the downside risk. Equally as important, we believe this vehicle will not only have little correlation to the stock and bond markets but that it will potentially act as a hedge against possible market risks. We believe this vehicle could provide a similar level of protection as our short sub-prime mortgage position did in 2006. If you have not taken the opportunity to learn more about what we are doing in this area, we encourage you to do so. This is a volatile sector, and when the prices move in both directions, they move rapidly. If you would like to have exposure to this vehicle, it is very important you allow us to tell you more about this opportunity.

It is hard to believe that we are in the final quarter of 2014. Time certainly flies, and we look forward to the close of the year. Our office in Houston is being expanded and remodeled to accommodate our growth, and we look forward to showing each of you the finished space. We appreciate all the confidence you have in our organization, and we look forward to seeing you very soon. Please let us know if there is anything that we can do for you.

