# CAZ Investments

## Quarterly Letter

**The More Things Change….**

Thank you to all who sent well wishes around the Hurricane Harvey destruction. We could not be prouder of our team and how they went to extreme efforts to help those that were impacted by the storm, even when their own personal lives were greatly affected by the devastation around us. The team executed our disaster recovery plan to near perfection, and most investors never realized we were out of our office for more than a month, as technology enabled us to avoid any disruption to our communication or the ability to be fully operational. The CAZ team is a family, and we lived this out while we held many firm meetings at home with the family dog sitting at our feet. Houston is still rebuilding, and we are very grateful for your support.

Writing letters this year has been challenging and a bit monotonous. The story has not really changed, and the outlook remains the same. Markets are very expensive, the economy is doing “ok,” all eyes remain fixed on Washington/North Korea and very few believe we will actually see meaningful reforms in Congress. Yet, the market continues to rally, bond yields remain low and unemployment remains moderate. Technology continues to change the very fabric of nearly everything in our lives, while natural disasters consistently remind us of the power of things that we cannot control.

With that backdrop, what is an investor to do? Our outlook has not changed much, and we are still excessively concerned about valuations while also being realistic that there is nothing outside of a geopolitical event that is likely to dissuade investors’ continued appetite for risk assets. We remain a **“1”** on the CAZ Scale because valuations are excessive, and we remain focused on the risks while being realistic that it is hard to see which catalyst might cause the bull case to unravel. Therefore, we encourage investors to truly understand where the risks are in their personal portfolio and maintain a stock market allocation that is well below your “sleeping level.” The major risks in the markets are well-known and discussed regularly in our letters and in the press. As we write this we believe the greatest short-term risks, other than North Korea, center around Washington D.C. and their efforts to reform taxation and regulations. If those efforts are unsuccessful we expect markets to respond negatively, as we believe tax reform has been mostly baked into stock prices. The uncertainty around a revamped Federal Reserve is also something we are watching, but it is not something that we would describe as concerning…yet.

**Themes in Focus**

As a result of the unclear waters, we continue to invest our personal capital in areas that are primarily outside of the traditional markets. We want to find opportunities that we believe will deliver attractive returns with little or no correlation to the stock market. These situations are not easy to find, but they do exist. Fortunately, as very large investors in the private markets, we have an incredibly strong pipeline of opportunities that cross our desks. This allows us to be quite selective and to see many investments in which most other investors will not be granted an opportunity. Our ability to act quickly, and in size, many times provides us with that "first call," which can lead to some unique and time sensitive opportunities.

As our investors should be well aware, we have focused a great deal of our efforts around two major themes. The first is the growth of private equity as an asset class and how we expect the "bigger to get bigger." This trend is not only solid but it also appears to be accelerating as institutional investors simply have no idea where they are going to generate the returns they need over the next decade. They recognize that a traditional asset allocation, when we have very expensive stock prices and low bond yields, will most likely fall short of what they need. Nearly every day we hear about another institution that is expanding their exposure to private equity or yield producing alternative investments. We will continue to allocate our personal money to those firms who should benefit from this trend.

The second trend is the literal revolution that is occurring in transportation around the world. The way that people move from point A to point B is changing at a breathtaking pace, and we are in the first inning of this transformation. As those who have followed our investments in the ride sharing space know, the speed at which new methods of transportation are being adopted is amazing. Just yesterday, Didi (the ride sharing company with a virtual monopoly in China) completed more than 25 million rides and during rush hour they completed 600 rides every second! Snap your fingers five times and picture 3,000 people arriving at their destination during that time frame. It is hard to fathom, yet Didi has penetrated less than 1% of all ground transportation in China alone. That sheds some light on how much growth we see in this space and, of course, it is not just China. This transformation is accelerating in almost every country around the world, and the development of autonomous automobiles is going to expedite the change even faster. Right now, in Phoenix, there are cars driving the streets with no human behind the wheel. Yes, right now! For those who think that the "Jetsons" are some distant fantasy, you may be quite surprised how quickly our lives are going to become infinitely more automated than they are today. The benefits to society are too numerous to mention, but any list would likely include: less traffic congestion, reduced fuel emissions, fewer people driving while intoxicated (and the corresponding reduction in death and destruction), higher personal efficiency, lower personal insurance rates, more personal spending money, entrepreneurial opportunities and capital efficiency.

Many have heard us talk about the concept of "wind in our face" vs. "wind at our back." The transportation revolution is a gale force wind at our back, and we intend to benefit from this theme in many different ways over the next several decades.

As we approach the end of the year, we ask you to save January 9th, 2018 on your calendar for our Themes for 2018 event. Official invitations will go out in the next few weeks. Last year we were on a waiting list, so please reply as soon as you receive the invitation to let us know if you will, or will not, be attending. This is also a great event for you to invite those friends, business associates and members of your family that would benefit from hearing about the “themes” that we see shaping the investment landscape next year.

We continue to have an incredibly full pipeline of opportunities, and we will continue to keep you informed as to what we are doing with our personal capital. Our shareholders and affiliates have more than $200 million of our own money invested in our vehicles, and we thank you for co-investing with us as we seek to earn outstanding returns. We look forward to seeing you very soon.

All our very best,

The Team at CAZ Investments