



## CAZ INVESTMENTS

CHRISTOPHER ALAN ZOOK

*A Wealth Management Firm*

### INVESTOR BOARD

ERNEST H. COCKRELL  
*Chairman  
Cockrell Interests*

MILTON T. GRAVES  
*Senior Advisor  
Cockrell Interests*

ROBERT K. HATCHER  
*President & CEO  
Cockrell Interests*

CARROL R. MCGINNIS  
*Investments*

THOMAS R. POWERS  
*Investments*

### INVESTOR PARTNERS

CHARLES A. BARZILLA, Sr.  
*Vice President  
Nishan Systems*

DOUGLAS Y. BECH  
*Chairman & CEO  
Raintree Resorts International*

JOSEPH J. BOUGHTON, Jr.  
*Chairman  
NorthStar Investment Group*

ROBERT L. BREWTON  
*EVP & Chief Investment Officer  
Raintree Resorts International*

M. TIMOTHY CAREY  
*Chief Executive Officer  
CRC Evans International*

NANCY T. CHANG, Ph.D.  
*Chairman, President and CEO  
Tanox*

PAUL A. GUILBEAU, Jr.  
*Senior Manager  
Cisco Systems*

DALE P. JONES  
*Vice Chairman, Retired  
Halliburton Company*

RALPH D. "SKIP" McBRIDE  
*Senior Partner  
Bracewell & Patterson*

DON R. MULLINS  
*Investor  
Don R. Mullins Interests*

RICK TRAFTON  
*Trafton Printing*

May 6, 2002

### **RE: CAZ Cornerstone Portfolio – First Quarter 2002**

Dear Client:

The first quarter of 2002 was interesting and quiet at the same time. If we only view the performance of the markets for the quarter, most would assume that very little happened. The S & P 500 lost .06% in the quarter and the Cornerstone portfolios performed in line with the market's return. With that said, if you look at how we achieved the result, the quarter had plenty of volatility. January started with a great rally that turned into a rout over renewed security concerns and earnings disappointments. February was ugly from start to finish and March was a solid month of upside momentum.

The quarter was also filled with continued scrutiny of many companies accounting practices. In the wake of Enron and Global Crossing, investors had a tendency to shoot first and ask questions later. This created enormous volatility in several portfolio companies, such as Tyco and General Electric. Some fears proved to be true as several companies announced they were under investigation by the SEC and/or the FBI, including Computer Associates. Many other accounting scares proved to be unfounded and numerous others have yet to be resolved.

All of this uncertainty has kept stock prices locked in a relatively narrow trading range. This uncertainty creates a very challenging environment, but also creates substantial opportunities. Many great companies have seen their stock prices trade at what we believe to be tremendous discounts to their long term potential.

As an illustration, let me detail for you one new position we added in the first quarter, Merrill Lynch. As a general rule, the brokerage/investment banking firm's stock prices have been extremely volatile for the last few years. This is because of the uncertainty revolving around earnings for these companies. Trading profits, investment banking fees and commission revenues are dramatically affected by a weak economy and stock market and this causes earnings to be unpredictable and volatile. Additionally, there has been tremendous scrutiny placed on the industry practices of research and investment banking. This conflict of interest has always existed. For the first time it is now being focused on by the media and regulators. Because of these reasons, we saw a large decline in many of the stocks in the group in the first quarter. Our long standing position in the industry, Lehman Brothers, has been one of the best performing stocks in the group and we wanted to add exposure to the sector. We chose Merrill Lynch. In our opinion, Merrill Lynch has one of the best franchises in the business and substantial operating leverage that will benefit when the economy and markets recover. Due to the price decline, we saw the opportunity to buy one of the most recognizable brands in the world, a superior management team, and a great business model.

We were able to secure a position in this great company at what we viewed as an extremely reasonable price. At our purchase price, we acquired our stake in this company at 1.85 times book value, 13 times our 2003 earnings estimate, and 8 times our 2003 cash flow estimate. If given the opportunity, we would indeed buy the entire company. This does not assure success for the investment, but it gives us conviction and what we perceive to be a lower level of risk. We believe Merrill Lynch stock price could trade for more than \$90 a share within the next 3 – 5 years. We base this price objective on our belief that the company can earn more than \$6 per share in earnings by 2005 and that, at some point the stock, will trade at 15 times that earnings projection. Obviously, there is no guarantee that this will occur and we will monitor the situation closely for any changes in our thesis. I felt this example would help you understand “how we think.”

Our outlook for the market and economy has not changed over the last three months. I still believe that the market will be stuck in this trading range until companies begin to demonstrate some predictability in their earnings. I feel the economy will show significant improvement by the third quarter of this year. Interest rates will begin to creep up and we will monitor this carefully so we can understand the potential effect this will have on our portfolio companies. Once again, we are not economists and we are not top-down investors. We focus on the companies that we wish to own and then factor in the potential positives and negatives to their business caused by the economic landscape.

In the first quarter, we added two more people to the CAZ Investments team, Chris Hausman and Konstantinos “Gus” Vlahadamis. Chris joined us from Chicago where he was head trader for STC, L.L.C., a proprietary trading firm managed by legendary options trader Tony Saliba. Before joining STC, Chris traded on the floor of the Chicago Mercantile Exchange. Chris received his education from the Wharton School of Business at the University of Pennsylvania. Chris will serve in a dual role as Head of Options trading and as a trading resource for us on both the Cornerstone and Opportunistic portfolios.

Gus moved to CAZ from PriceWaterhouseCoopers, where he served as Senior Tax Manager. Gus adds substantially to our capabilities in the area of financial planning and comprehensive wealth management for the families that we serve. Gus will be able to assist in all aspects of our client’s estate and tax planning, as well as provide fee based financial planning services. Prior to PWC, Gus practiced law with Osborne, Lowe, Helman and Smith in Austin. Prior to this, he was a professor at the American College in London and as well as an adjunct professor of business at Boston University’s London MBA program. Gus received his MBA in Finance and JD from the University of Wisconsin-Madison.

We are excited about the continued growth at CAZ Investments and we want your feedback. What can we do better? Please call me at 713-403-8250 (toll free 866-726-4263) or email me at [caz@cazinvestments.com](mailto:caz@cazinvestments.com) with any questions or suggestions that you may have. We appreciate the confidence that you have placed in us.

Sincerely,

Christopher Alan Zook  
Chairman & Chief Investment Officer