

1st Quarter 2005

CAZ CORNERSTONE PORTFOLIO
Quarterly Update

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The Boredom Returns

You will be able to tell from the length of this letter that there was not much to talk about. After a fantastic rally in the 4th quarter of last year, the markets were decidedly boring in the 1st quarter. The broad market indices started the year with a sell off, rallied moderately and then finished the quarter with a pullback. Overall the major stock indices were down between 2 and 5%. We experienced a solid quarter with our portfolios as stock picking overcame much of the broad market decline.

First quarter earnings reported by our companies have, thus far, been mostly in line with our expectations. We continue to be pleased with the performance of the management teams and underlying businesses where we are invested. The 2nd quarter is going to be a substantial test as to whether companies have been able to create top-line growth in this unusual economic environment. As we have stated before, profitability gains from cost savings have mostly run their course and we now need to see top-line revenue growth. This is one of the most important metrics that we will be monitoring as our companies report earnings. We are ecstatic with the amount of cash flow that these businesses are generating but there is going to have to be some organic growth to justify the valuations of the broad market.

Longer term interest rates began to climb during the quarter and the Federal Reserve continued to raise short-term interest rates. Commodity prices persisted in trading higher during the quarter, creating more concern about inflation and this had an impact on expectations for stock valuations. All in all, it was a classic case of a later stage bull market. We have this tug of war that is occurring between rising earnings and expensive valuations which is fairly typical of a mature bull market. In this quarter, earnings were rising yet stock prices were falling. This is a simple function of valuation metrics declining at a fairly rapid pace. The good news is that we start this quarter with more reasonable prices for many great companies. The bad news is that the valuation correction we have been talking about is beginning to pick up steam.

Last year the valuations were down slightly, but did not decline faster than the rate of earnings growth. So far this year, valuations are declining faster than earnings are rising.



Outlook for the Remainder of 2005

This brings us to the outlook for the balance of the year. At this time we feel that valuations in the market are reasonable in a number of circumstances. Certainly there are specific groups where companies are still trading at lofty valuations, but we are finding a number of companies that are very attractive to us. Therefore, we feel the downside risk is reasonable and if earnings come through as we expect, the rest of the year should present more opportunities for a market rally. As you know, we have muted expectations for 2005 and the behavior of the market in the 1st quarter has not changed our outlook.

As a slight change of pace, we have included an article with this letter. This article was published by *Dow Jones* and featured a very concise overview of some of the types of situations we look for in the portfolio. It does not detail the entire process but does provide a glimpse of how we sometimes find special situations in the markets. Don't hesitate to let us know if you have any questions.

As always, we appreciate your business.

All my best,

Christopher Alan Zook
Chairman and Chief Investment Officer

Enclosure

DISCLAIMER

This summary is for information purposes only and does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be used or relied upon in connection with any offer or sale of securities. The information and statistical data contained herein have been obtained from sources that we believe to be reliable but in no way are warranted by us as to accuracy or completeness. CAZ Investments is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request. PAST PERFORMANCE IS NOT A GUARANTEE OF CURRENT OR FUTURE RESULTS. Inquiries regarding performance or any other questions should be directed to CAZ Investments at 713-403-8250.

CAZ Investments has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report.

The CAZ Cornerstone Equity Composite contains fully discretionary diversified equity accounts. In addition to a management fee, some accounts pay an all-inclusive fee based on a percentage of assets under management. Other than brokerage commissions, this fee includes portfolio monitoring, consulting services, and in some cases, custodial services. The minimum account size for this composite is \$100,000.00. The CAZ Cornerstone Equity Composite was created August 17, 2001. Performance prior to August 17, 2001 occurred while the management team was affiliated with a prior firm and the portfolio managers were the only individuals responsible for selecting the securities to buy and sell. Compliance with the AIMR-PPS has been verified firmwide by an independent accounting firm from August 17, 2001 through the last calendar quarter. Verification is in process for the most recent quarter. In addition, a performance examination was conducted on the CAZ Cornerstone Equity Composite beginning January 1, 1999. A full disclosure presentation, including the Independent Accountant's Report and the Annual Disclosure Presentation, is an integral part of this presentation and available upon request.

The U.S. Dollar is used to express performance. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Balanced portfolio segments are not included in this composite. Leverage is not used in this composite. Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow greater than or equal to 25% of portfolio assets. The temporary removal of such an account occurs at the beginning of the month in which the significant cash flow occurs and the account re-enters the composite the first full month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request.

Returns are presented net of management fees and include the reinvestment of all income. Prior to October 1, 2001, accounts in the composite were charged an all inclusive wrap fee. Net returns for this period have been reduced by all fees and transaction costs incurred. As of January 1, 2002, actual fees are used to calculate net performance results. A firm fee schedule is an integral part of a complete presentation and is described in Part II of the firm's ADV, which is available upon request. Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the respective wrap sponsor.



Texas Stock Picker Likes Fixable Problems

By John Seward
Of DOW JONES NEWSWIRES
April 6, 2005 7:30 a.m.

NEW YORK (Dow Jones)--Money manager Christopher A. Zook says that when emotions roil the stock market and bad news hits companies, it's often a good time to go shopping.

Zook, whose CAZ Investments in Houston manages about \$420 million for institutional and individual clients, believes the vagaries of investor psychology sometimes obscure underlying value and can present savvy stock pickers with plenty of opportunities. Often a stock gets punished too harshly because of a non-recurring problem, Zook says.

Zook has, for example, busied himself in recent days by loading up on shares of troubled insurance giant American International Group Inc. (AIG).

AIG shares are down nearly 30% from their 52-week high, in a sell-off driven by news of its accounting problems and regulatory probes that led to the recent departure of Chief Executive Maurice R. Greenberg.

But Zook thinks the troubles will blow over and AIG shares, now trading at what he says are their lowest price-to-book-value ratio since 1994, will recover.

"From our perspective, the franchise value is still intact," Zook said.

AIG's stock was trading recently at \$54 a share, and Zook expects the stock to hit \$90 within two years.

Zook, known to his Texas friends simply as "Caz," picks stocks from among the roughly 1,000 U.S. companies with \$3 billion or more in market capitalization.

After initial screening for a healthy balance sheet, consistent cash flows and strong market outlooks, "we look for growth at reasonable prices," Zook said.

The company's Cornerstone Portfolio, its core product, typically includes 40 to 50 stocks, and as of Dec. 31, was up 5.31% since its start-up in 1999. That compares with growth in the same period of just 1.25% for the S&P 500, and a decline of 3.3% for the Russell 1000 Growth index over the same period.

Zook says when a company faces a one-time, fixable problem, whether in its markets or internally, shares are often cheap and worth buying.

Last summer, Zook acquired Comcast Corp.'s (CMCSA, CMCSK) stock at \$27 a share, when cable industry stocks were depressed by scandals related to Adelphia Communications Corp. (ADELQ) and Comcast itself was still smarting from its failed attempt to acquire Walt Disney Co. (DIS).

Comcast's stock was trading recently at \$33.07 a share, and Zook thinks it will hit \$50 within three to five years.

Zook is also adding to his position in Wal-Mart Stores Inc. (WMT).

"The stock has gone nowhere in the last five years," Zook said, "but earnings have gone up every year."

Wal-Mart's stock traded recently at \$50.21 a share, down about 16% from its 52-week high of nearly a year ago.

"The market is saying it needs to be cheaper," Zook said, but he believes that even if its price-to-earnings ratio were to decline, Wal-Mart's expected annual growth of 14% is likely to drive its share price higher.

Zook expects Wal-Mart stock will sell for \$100 a share within five years based on a slight increase in valuation and its compounded growth.

Zook is also partial to Office Depot Inc. (ODP), especially since he acquired at least part of his stake near its 52-week low of about \$14 a share last autumn. More recently, Office Depot went through a management shakeup, although its profit margins are only half those of rival retailer Staples Inc. (SPLS).

"Will they ever close the gap with Staples? I don't think so, but if they get even close" the stock could appreciate smartly.

Office Depot's stock is trading near its 52-week high of \$23.70, and Zook thinks it could hit \$30 in three years.