CAZ INVESTMENTS

A Wealth Management Firm

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1st Quarter 2004

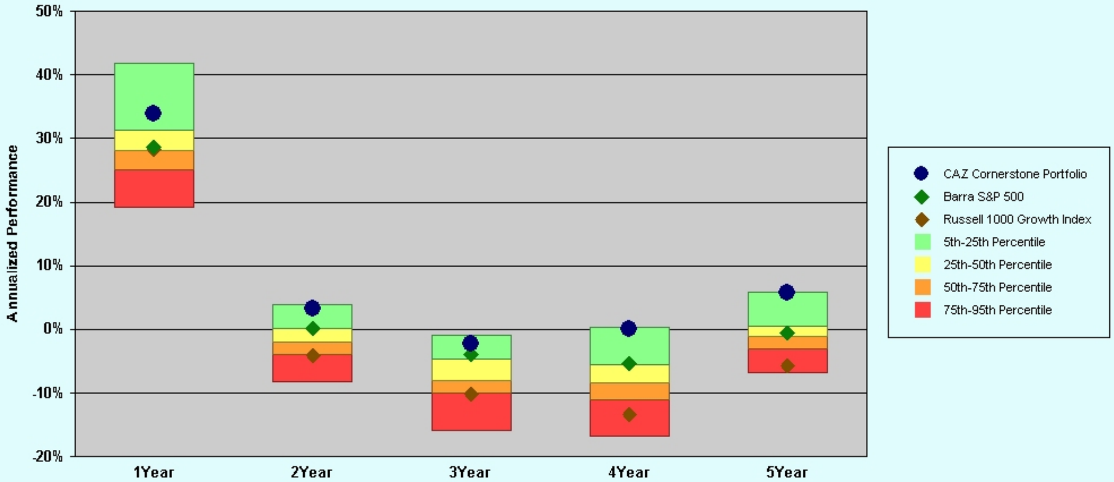
CAZ CORNERSTONE PORTFOLIO
Quarterly Update

The first quarter of 2004 could be described by the term "false start." The market shot out of the gate in January and quickly rallied by more than 3.5%, only to run out of gas in late February, and then decline in March to end up the quarter by 1.69%. The CAZ Cornerstone Portfolio virtually matched the return of the benchmark and we saw substantial outperformance by the CAZ Concentrated Cornerstone and CAZ Tactical Growth and Income Portfolios.

We had a very exciting first quarter as an organization and are pleased to announce that the entire team from McCrory & Associates has become part of the CAZ Investments family. We would like to welcome all of the McCrory & Associates clients and we will do our best to quickly bring you up to speed with our current outlook for the portfolios we manage, as well as the market. In order to do this, we will backtrack and pull several quotes from our quarterly letters of the last two years. For our existing CAZ Investments clients, we would like to tell you a little more about McCrory & Associates. Aimee McCrory has created a great culture of client satisfaction and built tremendous relationships during the 15 years she has led this organization. She has tremendous energy and personality and has a fanaticism about client service. Steve Gammage and Matt Kissinger are both talented research analysts and portfolio managers and they will add to our depth in those areas. Rebecca Sheppard is a very talented operational specialist who will help ensure that the operational transition goes smoothly. We are glad to have the McCrory team with us.

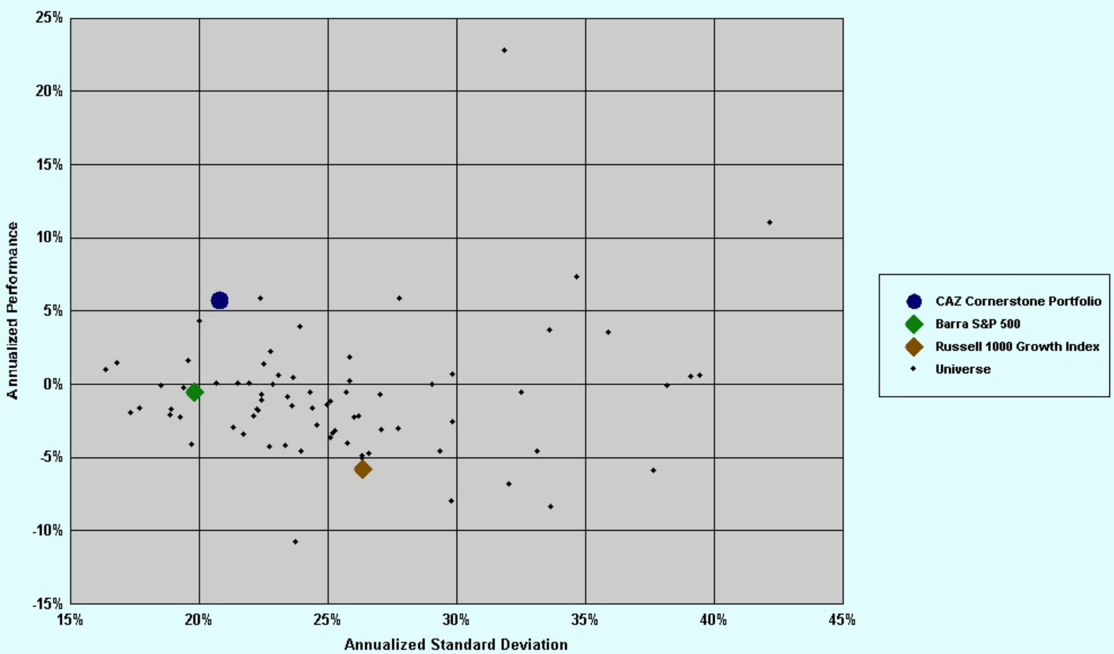
Additionally, in the first quarter we are ecstatic to announce some accolades that CAZ Investments has received on a national level. Nelson's Marketplace, a division of Thomson Financial, has selected CAZ Investments as one of the "World's Best Money Managers" for both the one year and five years ended December 31, 2003. We are one of only six firms that received this honor for both periods. This is a testament to the consistency that we have delivered for our clients over time. As you can see from the charts below, we have had vast outperformance versus our peers and benchmarks over virtually every time horizon since January 1999. We are very proud that we achieved this while consistently delivering one of the highest risk-adjusted returns in the country.

Performance vs Large Cap Growth Manager Universe
Jan-1999 to Dec-2003



Source: Nelson Information's The Investment Manager Database. The large cap growth universe consists of 112 separate account money managers.

Risk / Return vs Large Cap Growth Manager Universe
Jan-1999 to Dec-2003



Source: Nelson Information's The Investment Manager Database. The large cap growth universe consists of 112 separate account money managers.

<u>Where are we today?</u>

Last quarter you read that we were "**optimistic, but nervous**." Today we classify our outlook as "**optimistic, but concerned**." Let's look back in time in order to make sure that all who read this letter understand how we have reached our current outlook on the markets. We want to be completely clear on one very important fact, we are **NOT** market timers, nor do we pretend to be market forecasters, but we do have opinions as to the relative valuations of our portfolio and the alternatives in the market. We are bottom up managers, and that means we first pick stocks based on their independent outlook. The direction of the markets will certainly have an impact on the performance of those companies, but we are confident that over time the main driver of our performance will be our success in company selection.

In our 2nd quarter of 2002 letter we spent a tremendous amount of time talking about the markets from a historical perspective and where we believed the markets were in relationship to historical norms. We classified our view as having moved from "**cautiously optimistic**" to "**extremely optimistic**." In the 3rd quarter letter we illustrated how human psychology sometimes makes it very difficult to "see the forest because of all the trees." We then further discussed how we viewed our companies as extremely undervalued compared to their cash flow growth prospects. The continued market decline, and resulting cheaper prices, caused us to proclaim that we felt that those days presented "**the buying opportunity of this investing generation**."

By the end of 2002 and into the first quarter of 2003, it was clear that the market had stabilized and we discussed the valuation of our portfolio and the relative attractiveness of dividends for income investors. We also declared that we were outright bears on bonds. This is still the case today and we expect that fixed income investors will be faced with several years of very low, or possibly, negative total returns from fixed income investments. It was also clear by early 2003 that profit margins were beginning to expand at the companies we owned as they reaped the benefits of reduced expenses and stabilization of revenues. Additionally, the geo-political environment was becoming clearer and the administration was continuing to provide fiscal stimulus while the Federal Reserve was providing accommodative monetary policy by keeping interest rates low. We continued to write about the inexpensive valuations in our portfolio and how, in spite of sharp increases in operating profits, the total market capitalizations were actually lower than four years prior. All of these factors gave us tremendous comfort in our outlook. We felt the forecast was beginning to look much better, in spite of the consistent negative sentiment in the markets and the pessimistic viewpoint illustrated by the media.

Then the bull emerged with a fury and the market proceeded to surpass virtually all expectations in 2003. Profit growth was strong in 2003, but perception and valuations improved even more dramatically. In the 2nd quarter of 2003 we experienced the strongest quarterly performance of the S&P 500 since the 4th quarter of 1998, and this rally extended itself through the summer. We discussed in great detail how the market needed to "show us the money" in the form of significant profit growth. By the 3rd quarter of 2003, it was clear that the profit growth was there and that the market's outlook was certainly much more certain. With that being said, we get less bullish as stocks rise and we moved our stance to "**cautious optimism.**" With the expanded performance in the 4th quarter we began feeling uncomfortable with some of the valuation metrics and behavior of the market, especially in the lower quality companies. This caused us to make the statement referenced above that we were "**optimistic, but nervous.**" The combination of higher prices along with some uncertainty looming on the horizon has now made us "**optimistic, but concerned**." Now, here is the problem. It is very difficult for people to really identify with what these statements/outlooks mean. Due to this, we are going to provide an analogy that has been well received and understood by our clients.

Central Park

There are certain places in this world that change their appeal depending on external circumstances. One simple example of this is Central Park in New York City. Depending on the time of day Central Park can be delightful and safe, or scary and dangerous. This is very similar to the stock market. Depending on a number of factors, investors should feel extremely comfortable or extremely uncomfortable with the stock market. This has been illustrated perfectly in the last few years. As illustrated above, we were very optimistic in July of 2002 when the market was down nearly 50% from its peak and great companies were trading at large discounts to what we felt was appropriate. This was similar to a warm sunny day around 2:00 p.m. in Central Park. There are few places that are more beautiful on a nice day. By the fall of 2003, after a substantial rise in the market and therefore valuations, we grew more cautious but still optimistic. This is similar to 6:00 p.m. in Central Park. It is not dark yet, but you can see the sun setting on the horizon and know that soon it will be dark. This is typically a beautiful time to be in that location, but one is cognizant of the impending darkness. By the end of 2003, the market continued to strengthen and we grew more nervous about the market and its prospects. Staying with the analogy, it felt like 8:00 p.m. in Central Park. At this time of the evening, it is dark and a little scary, but one feels fairly comfortable as most of the "bad guys" are not out yet. Prudence dictates though, that one should look around trees and corners a little more carefully. Now we get to today. What time is it in Central Park? To us it feels like 10:00 p.m. It is a nice night with good weather, but we are beginning to hear bad guys rumbling around in the woods. We don't know when, or if, they are going to jump out and attack us, but we are concerned about our safety. The question we have to ask ourselves, and every investor must also ask is, "what will we do when it is midnight?" There is no question that when midnight comes, an investor has to be prepared for the worst.

If the last four years have shown us anything, it is that investors need to be aware of their surroundings. The basic fact is that investors, as a group, tend to view things backwards. The longer they stay in Central Park and the later into the night it gets, the safer they feel. That is, as the bull market continues for longer periods of time and stocks continue to rise, investors become more confident and more complacent. This is when caution should be at its highest. Investors should become more comfortable when stock prices have come down dramatically and the valuations are at excellent levels. It is at this time that most investors flee to the indoors, yet this is just before the sun emerges and stocks are poised to perform very well.

What should an investor do if midnight is approaching? First, let us be clear, we do not know when the market will get to that point. We also are not saying that we are there today. What we do want to do is make sure that our clients are best equipped and prepared for the occurrence, because it will happen. Every client is a little different and every investor has to set a definitive game plan before we get to that point. For most investors, if an asset allocation has been well planned and monitored, the answer is usually to stick to the plan. The way many investors get in trouble is by trying to adjust the battle plan in the heat of the battle. It is very emotionally difficult to do this, and for many people it is next to impossible to remove the euphoria and fear from the equation to make sound decisions. Therefore, every investor needs to be comfortable that they have a sound strategy in place and that the vehicles they are utilizing will serve them well.

Why 10:00 p.m.?

The logical question to ask is why we feel it is getting late for this market. We see nothing but solid results coming from our companies. The economy is beginning to pick up steam and jobs growth appears to be accelerating. These are all positives and they keep us optimistic. That said, we also recognize the "bad guys" that are in the woods. These include the geo-political environment which is not as stable as it was in the fall. Iraq continues to be a thorn in the news flow; we have seen increased terrorist activities including the horrific Spain bombings; and there is increased uncertainty with the November elections. In addition, the budget deficit will inevitably be addressed, interest rates are beginning to creep higher, and corporate profitability gains are going to be much harder to come by, thus requiring more revenue growth as opposed to cost savings. Most importantly, valuations are simply not as attractive as they were a year ago. Valuations are not obscene, outside of the lowest quality companies, but they are not cheap either. This is why we are still optimistic, just concerned.

Does this mean we are exiting the market? Of course not, but what it does mean is that we are having a more difficult time identifying attractive new ideas. We are finding new ideas that we really have confidence in, but the quantity of those ideas has materially dropped. Whereas in 2002 we had more new ideas than money, today we have more money than new ideas. We have stated before and will state again, we do not buy stocks just for the sake of investing new capital. We must feel the position is justified in order for us to invest new capital. This patience has rewarded us with great performance in the past and we will NOT deviate from our discipline.

What could cause the market to go from 10:00 p.m. to a more favorable time? Stronger than expected corporate profits, geo-political stabilization, stronger than expected economic growth, or a pullback in stock prices are all possible factors that could actually improve our outlook and make us more comfortable with the risk in the market. One thing is certain, we will continue to focus on companies first and how they will perform in the environment we see in front of us. We are not market timers and we are not economists. We will continue to look for great companies trading at reasonable prices and we will allocate our resources to the stock of those companies to participate in the long-term success of those enterprises.

We welcome any questions related to our outlook. If you would like to review any of our past quarterly letters that were referenced in this letter, you may access them on our website, or you may contact our office. Additionally, we are happy to discuss with you your specific situation and how you are positioned in the marketplace for whatever time it might be in Central Park.

All my best,

Christopher Alan Zook
Chairman and Chief Investment Officer