CAZ INVESTMENTS
CHRISTOPHER ALAN ZOOK
A Wealth Management Firm

February 20, 2002

Dear Client:

2001 has come to a close and what a year it has been. We experienced one of the worst economic environments in recent history, the largest terrorist attack in this country's history and a war. Through all of this, the markets were extremely volatile.

The S&P 500 was down 11.9% for the year. While that is not something to celebrate, especially on the back of a 9.1% decline the year before, it was not as bad as it seemed. Last year did not even make the top 10 list of largest yearly declines. Considering the backdrop, it could have been much worse.

Let's look at the historical perspective of where we are today. Since 1942, there have been 44 up years and 16 down years. The average decline in negative years has been 10.8% and the subsequent year the market has rallied by an average of 14.7%. There have been only two times in this period where the market was down two years in a row, 1973-1974 and 2000-2001. Additionally, there have been 14 major peak-to-trough declines in the S&P 500 since 1942. The average of these declines was 25.4%. These 14 declines have averaged 11.9 months in length. The longest of these bear markets has been 21 months, 1973-1974 and 1980-1982. This bear market, if you assume it ended in September 2001, dropped 37.8% and lasted 18 months. I have attached a detailed breakdown of these statistics for your information.

Does this mean the market cannot go down in 2002, making it 3 years in a row? Of course not, but this is one of the reasons I am cautiously optimistic about the coming year. Other reasons for my optimism include the following: the fed has lowered interest rates to levels not seen since the early 60's; American companies have worked off substantial amounts of excess inventory, which should stabilize pricing and improve profit margins; the economy is beginning to show signs of recovery; and the combination of fiscal and monetary stimulus is powerful fuel for the economic engine.

That being said, there are several factors that make me cautious, including the following: the American consumer is at an unsustainable level of personal debt, and their savings rate is poor; stock market valuations are, as a whole, at levels I still consider expensive; and accounting concerns will continue to create a cloud of skepticism over the markets. The million dollar question is what has the market already discounted and what has it not?

At this time, there are fantastic opportunities being generated by the market. For the first time in a long time we are in an environment that is creating enormous opportunities to buy strong companies trading at extremely reasonable prices. This is a more difficult challenge than in years past, though, because there are so many landmines in the market. You cannot simply "buy the market" and make a great return. Great returns will be reserved for those who can separate the wheat from the chaff and identify the companies that are truly going to thrive in the next few years.

I am very pleased with the way Cornerstone is currently positioned. I continue to work with the excellent CAZ Investments team to refine the portfolio, add excellent companies to the list, and position the group to greatly benefit from the market's recovery. We had a challenging year in 2001. Our performance met the official objectives of the portfolio, to meet or exceed the return of the S&P 500 with equal or less volatility, but it is never enjoyable to lose money. Gross of fees, we exceeded the S&P 500 and net of fees, we trailed.

Unlike 2000, when we were able to make strong returns in spite of the S&P 500's 9.1% decline, there was no place to hide this year. No sectors offered a safe haven. I think this will be very different in 2002 as some industries will thrive and others will suffer. We will continue to utilize the same approach that has allowed us to outperform the S&P 500 by significant margins. This does not guarantee out performance in the future. One thing you can count on, though, is that we will stay consistent with our style and method of investing.

We continue to grow our infrastructure at CAZ Investments. In December, Sam Vogel joined our team. Sam comes to us from a large hedge fund group in Dallas and we are very pleased to have him. He is Managing Director of the newly formed CAZ Alternative Investment Consulting Group. Sam brings excitement, energy and new opportunities for our clients. You will find his biography included for your review.

I am very excited about 2002 and what it has in store for all of us. May God continue to bless you, your family and our great country. Please let us know if there is anything we can do to better serve you.

All my best,

Christopher Alan Zook
Chairman and Chief Investment Officer

Attachments (2)