

CAZ Investments

Quarterly Letter

It is Finally Over!

We held off writing this quarterly update in order to know the outcome of the long anticipated election. If there is one thing this election cycle taught us it's that we are a country deeply divided, with sharp disagreements on material policy matters. That said, we think every single person in America can agree on one thing this morning.... "At least it is over!"

What an amazing spectacle this election became. We won't bore anyone with a recap of all the drama but, suffice it to say, this Presidential election will go down in American history as one of the most bizarre of all time. The surprise outcome, compared to virtually all polling data and market expectations, was just the icing on the cake. There is probably someone who predicted that Trump would win by the electoral vote margin he did, and that the Republicans would maintain control of the Senate to go along with the House, but we certainly didn't hear that from anyone. After a nearly 5% selloff overnight as the returns were coming in, the markets snapped back in dramatic fashion this morning and are now trading higher across the board. One can only speculate as to why the reaction was so severe once it appeared Mr. Trump was going to win several key states, but our best analysis would be that there was a very real possibility for several hours that a 269/269 tie was plausible and that a contested result was very likely. It appears that once the result was a clear Trump victory the markets became less concerned about possible court battles taking us back to a "Bush/Gore" limbo. Markets hate uncertainty, and the ambiguity around the Presidential and Congressional results is now gone. Now the uncertainty will become much more policy focused as people try to determine exactly how much of the campaign rhetoric was just that, rhetoric, and how much of it is actually going to be part of a legislative and executive branch agenda. For today, so far, it appears that the markets are breathing a bit of a sigh of relief that we don't have pandemonium in the streets and will start to focus on those policies over the next 100 days.

The spotlight is on the Federal Reserve

What we can say with high confidence is that the Federal Reserve ("Fed") will once again take center stage between now and their December meeting, where the odds makers project a high likelihood that they will raise short term interest rates again. It would be quite surprising to us, and to the markets, if the Fed does not raise rates. The Fed finds themselves in a bit of a pickle right now. The economy is showing signs of weakening, and they will want to be able to utilize monetary policy to provide support if that trend continues and we start to rollover into a recession. But, they cannot provide significant support, in the traditional fashion, if they do not first increase short term rates to a more normalized level. However, if they raise rates too quickly, they could easily tip the scales and accelerate the slowdown.

Speaking of scales, we remain outright bearish with a "1" on the CAZ Scale. This is the most negative we have been since January of 2007 and we are very, very concerned about the economy worldwide and, more specifically, about corporate profit growth.



To be totally clear, we have not had time to digest the outcome that we absolutely did not expect last night, where the Republicans now control both houses of Congress and the Presidency. So, the rating on the scale is under review and one should expect that rating to change if we learn something that causes us to believe a recession can be avoided over the next 24 months. As we write this, we absolutely believe a recession is coming. When one combines expensive stock prices, which we detailed extensively last quarter, with declining corporate profits, and a looming recession and credit crunch, it has virtually always resulted in a significant bear market.

What should investors do in this environment?

Sell when you can, not when you have to. Build cash positions, start scouring the landscape for opportunities to profit from the potential market dislocation and stay focused on non-correlated assets. One thing that is quite amazing to hear is how many people tell us they don't want to raise cash because they don't have anywhere to put it. It is, of course, a real challenge to find a decent return on very safe, liquid investments but let's never forget Will Rogers' famous quote about how much more important it was to focus on the "return OF my money, instead of the return ON my money." There are times to be aggressive but we do not believe this is one of those times... That said, we have the same problem that all investors have, which is where to park our cash. Therefore, we created a specific vehicle for our personal capital and the capital of our shareholders and affiliates. That vehicle is open to families who co-invest with us and has returned more than 3% this year. No one gets excited about a 3%+ return, but compared to virtually nothing on money market funds, we are extremely pleased. If you have not become familiar with this vehicle, please let us know and we would be happy to discuss it with you.

Themes for 2017

It is hard to believe that year end is quickly approaching. That means that our Themes for 2017 event is right around the corner. **Please save the date on your calendar for the evening of January 19th, 2017.**

We are honored to announce that we have two incredible guests joining us that night to share their thoughts and outlook with our co-investors. **Wilbur Ross**, the billionaire who is considered one of the best investors of all time, will share his thoughts on the potential distress in the credit markets, as well as his view on several sectors where they are actively pursuing opportunities. **Peter Cecchini**, Senior Managing Director at Cantor Fitzgerald, will also be with us to give us his thoughts on the likely policy drivers in the new administration, the expected economic/currency impact from Brexit and the outlook for international markets.

Both of these men are extremely well known market commentators, and we are honored to have them as our guests. Please make every effort to attend the event, and please reply quickly when the official invitations go out. We had standing room only at our event in January of this year, and we fully expect to be on a waiting list for the event this year.

Growth of the Firm

CAZ continues to grow and we are very proud of the people on our team. Each of the new team members are all intricately involved in the investment process and they will help keep our families informed as to what is happening with each vehicle. They have



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spent several months learning about each family as well as every investment we have made. This group will be involved in providing personal attention on the specific investments you have with us, keep you abreast of our world view and themes, as well as strategy and portfolio construction.

Please help us welcome the following Investment Strategy Managers:

Clark Edlund

Lila Ontiveros

David Sawyer

Mark Wade

These are interesting/complex times in the world, and we want to make sure we are able to spend the time needed to uncover profitable investment opportunities, while providing our partners the attention they deserve. These new members of our team will help us do this, and we know that you are going to enjoy the additional access that they will provide.

We look forward to seeing you in the very near future, whether it be at one of our group events over the next several weeks or at the Themes for 2017 event. Please let us know if there is anything you need from us and we will be happy to assist any way we can.

All our very best,

The CAZ Investment Team

