

CAZ Investments  
Quarterly Letter

**90 Days of Sideways**

The market went sideways for the entire 3<sup>rd</sup> quarter, within a tight band. The tug of war we spoke about in our last letter continued to be fought between earnings and trade concerns, balanced against optimism that the Federal Reserve was going to cut interest rates. Neither the bulls or bears were able to gain an advantage and it was a very choppy quarter with no progress.

As we write this, things have resolved themselves to the upside, with most of the major U.S. stock indices breaking out to new highs, and markets around the world climbing significantly from their summer lows. The optimism has been based on multiple rate cuts from the Federal Reserve, signs that the trade dispute with China are going to be resolved in a favorable way for the U.S., and pretty solid earnings across most sectors and industries. There is actually a lot to like about the way stocks are acting and there is a good chance that this rally could continue through year end, in what is seasonally a pretty good time for the markets.

That doesn't mean the risk/reward is any better than it was last quarter, so we will maintain our rating on the **CAZ Scale of a 1**. As a reminder, this does not mean we expect stocks to decline in the near term, it just means that we feel we are not being compensated well for the amount of risk on the downside that exists if things start to unravel. Stocks are expensive relative to earnings growth, which is flat to only slightly positive, and that means that signs of a decline in that growth rate could lead to very significant valuation compression and falling stock prices. The hardest part about valuation driven rallies is that they are typically based on psychology, and that can reverse on a dime. One wrong news headline, or tweet, can change the psychology of the markets which makes it very difficult to predict. That said, we are very aware of the adage "don't fight the tape," and the tape is actually acting quite well. Our caution for investors is to be sure that your allocation to stocks has not grown to a larger % of your target allocation than it should be. Sell when you can, into strength like this, not when you have to.

**Focus on Predictability**

We continue to stress that in this unpredictable world investors should focus on the things that they can predict with high degrees of confidence. Stock markets rarely fit that description, unless they are exceedingly cheap, and that is not where we sit today. That is why we continue to focus our personal portfolios, and the efforts of the organization, on that which is highly predictable. For us that means cash flow, security, safety, with strong optionality for outsized returns. Right now, we don't want to have to guess about our visibility to returns, we want to know how we are going to get paid, and we want to get paid as quickly as possible. This leads us in this environment to investments that tend to have some form of either collateral based protection or contractual based protections, or both. Fortunately, there are several extremely unique areas where we have found this type of investment profile, that also possess very strong expected returns.

We will continue to keep you posted on these situations as they arise. Frequently the timelines for the opportunity are relatively short, so know that when we notify you, we believe it is worth your time and attention. These kinds of unique situations are hard to find, and we are evaluating more than 150 investment opportunities every month. When



3rd Quarter 2019

we make those investments, we feel that they are differentiated and important for you to focus on. Our ecosystem continues to grow and so capacity is frequently limited, which means that the timeliness of your response is often the difference between missing out and having the opportunity to partner with us. There are several very specific opportunities we are currently doing detailed work on, and we will let you know if those investments are actionable.

As a reminder, you can now access our quarterly videos in one location via a private page on our website. Those videos will give very straightforward updates on all of your investment vehicles, with as much current information as we can provide. Please let us know if you have any problems accessing that website or watching the videos. Don't forget to reserve **January 14, 2020** on your calendar for the Themes for 2020 event. We have confirmed two exceedingly talented speakers for the evening, and we will be sending out those details shortly. We expect to have a waitlist for the event. Existing partners will be given the ability to reserve their spot first, so please take advantage of that head start when registration opens.

2019 is almost in the books and it has been an outstanding year. If there is anything we can do to serve you better, please let us know. Have a wonderful holiday season and we look forward to speaking with you soon.

All our very best!

The CAZ Investments Team

