

CAZ Investments
Quarterly Letter

What we Know and What we Don't Know

This is the latest we have written a quarterly letter in a long time. The reason for the delay is that we have continued to hope that we would have clarity on the election and know precisely what to expect for the next two years, at least, until the mid-term elections occur in 2022. Well, as we write this, we are not exactly sure what we know. The official indication is that Vice President Biden will be the next President, but the looming recounts and legal actions mean that it is hard to say that definitively until the electoral college officially convenes and announces the final results. Adding to what we don't know is who will control the Senate. Barring some significant changes in Georgia from the recount, there will be a runoff for both of that state's Senate seats. The current tally is that there will be 50 Republican Senators and 48 Democratic Senators, pending the results in Georgia. To say those two races take on an epic level of importance is a dramatic understatement. If the Democrats win both of those seats, there would be a 50/50 tie, leading to effective Democratic control of the Senate if Biden wins the Presidency, as the new Vice President would break all ties. There would be a shifting of committee chairs, with likely Elizabeth Warren chairing the financial institutions sub-committee and Bernie Sanders as chair of the budget committee. Control of the Senate would provide the ability for the Democratic party to make drastic policy changes, while if at least one of the Georgia Senate races is won by the Republican candidate, it is safe to say that gridlock will be more likely. One of the very few things we can say that we know for certain is that more money is likely to be spent on those two Senate races than any others in history, and that voters in Georgia will be inundated with political ads to an extent they have never experienced.

The other thing that we can say with high confidence is that there will be a vaccine available for the U.S. population within the next 3 – 6 months. The clinical trial data we heard this week is highly encouraging. This was not a surprise, as we have expected solid outcomes from the trials, but until the data is delivered one can never say for sure. The next item we don't know is whether people will take the vaccine, and to what extent will its availability change behaviors and stabilize the economy. Current surveys indicate that less than half of Americans will take the vaccine, so we will have to wait and see if it is widely accepted and utilized. That will likely play a large part in determining how quickly the economy will return to “normal”, or whatever that is going to look like. Our expectations are that life in the fall of 2021 will feel a lot more like the fall of 2019, rather than the fall of 2020. Memories are short and humans are social animals, so we expect that the overwhelmingly large percentage of the population will want to resume the majority of their historical behaviors. This is good news, and we are hopeful that companies will begin to resume customary hiring practices which would lead to a reduction in the massive unemployment we currently endure.



The Disconnect Persists

Markets have traded sideways since our last letter, with a sharp selloff in September/October followed by a rally in early November based on what appeared at the time to be a projection of gridlock in Washington and positive vaccine news. We find ourselves right back at the old highs and everyone kind of holding their breath. Virus counts continue to spike, and many countries/states have resumed restrictive measures, creating a massive strain on already stressed businesses. There are a tremendous number of businesses that are surviving, but barely. Fiscal stimulus is likely coming before year-end, regardless of the election results, but for some it is just going to give them a few more months of staying power. If we do not see meaningful resumption of economic activity in the next 6 – 12 months, there will be a tidal wave of defaults, company closures, and layoffs. Just this week we saw a national chain of pet focused retail stores announce they are simply closing all stores and liquidating the assets. No restructuring of the balance sheet, no equity infusions, just closure with all employees losing their jobs. This was a higher profile instance which caused more press coverage, but there are an enormous number of other situations just like it that have not gotten much attention. The stock market does not appear to be factoring the possible extension of this trend as we look toward 2021. Either we are going to see a V shaped recovery in the economy, and corporate earnings, or there is going to have to be a material correction in stock valuations and a dislocation across wide swaths of the business community. By all traditional measures, stocks are expensive, and we remain exceedingly cautious. Therefore, **we are maintaining the “1” rating on the CAZ Scale** that we enacted in mid-August at roughly current market levels. The 1 rating reflects what we perceive as the least attractive risk/reward environment for stock prices going forward, and one of the absolute worst we have seen in several decades. We can build a case for stocks to trade higher, but right now we are much more concerned about the downside, and so we will remain defensive until we have concrete reasons for a more aggressive stance. Until that time comes, we will continue to focus on less correlated assets that provide us with a predictable stream of cash flows and return expectations, that will also benefit if the economy strengthens. We find these types of investments much more comfortable to own in an uncertain world.

We would love to provide you with more information about what we “know”, and hope to be able to do so very soon, but until the uncertainty regarding the election is resolved, the shape of policy will be impossible to predict. The timing of our annual Themes event in January is likely to provide an excellent platform from which to deliver our expectations, based on concrete information. Themes is always a valuable event, but we would venture to say that it is a “don’t miss” opportunity this year. Unfortunately, because of the virus, we will not be able to host the event in person but being virtual will allow many of our investors who have not attended in the past do so this year. Please hold January 21st from roughly 10 a.m. – 5 p.m. central time on your calendar. We will not only have two excellent keynote speakers for our fireside chat, but we will also have dedicated sessions where we will hear from some of our strategic partners in most of our largest themes. Be on the lookout for more information from us as we get closer to the date.



3rd Quarter 2020

Thank you for partnering with us and please let us know if there is anything we can do for you. Our guess would be that most people share our view that we look forward to putting 2020 in the history books and moving forward. Have a great holiday season and celebrate all the blessings we can be thankful for.

All our very best to you and your family!

The CAZ Investments Team

