

CAZ Investments

Quarterly Letter

Concise and Precise

What a start to the New Year! Markets had an excellent first quarter; the government resolved the fiscal cliff and the world (for the most part) has avoided any major financial catastrophes. As with any organization we strive to always improve our performance and service. During the last three months we met with several families that represented the broad spectrum of our client base. The goal was to get feedback on our strengths but also to see how we can better serve the needs of our clients. The information we received has been outstanding, and all clients will see us implement both major and minor changes to our approach based on this advice. It is very important to us that if you have suggestions of any kind that you speak to your relationship manager, and provide them with the opportunity to hear what we can do to better serve you.

One of the consistent themes we have heard from clients is the request that we streamline and simplify our communication with you. We have always taken the approach that too much information is better than too little, but we do not want to overload you with information. With this in mind, we will provide concise, precise and abbreviated information to our clients and partners. The first of the attempts to honor these requests will be with this quarterly letter. Anytime you would like a more detailed explanation of our world view please let us know.

The Liquidity Beat Goes Marching On

The Dow Jones Industrial Average hit a new all time high during the first quarter. It is always encouraging when markets reach new plateaus, and yet it provides some interesting opportunities for comparisons. Here are statistics that quantify some of the differences between now and the last time the market was at this level:

- □ Dow Jones Industrial Average: Then 14164.5; Now 14164.5
- □ GDP Growth: Then +2.5%; Now +1.6%
- □ Americans Unemployed (in Labor Force): Then 6.7 million; Now 13.2 million
- □ Americans On Food Stamps: Then 26.9 million; Now 47.69 million
- □ Size of Fed's Balance Sheet: Then \$0.89 trillion; Now \$3.01 trillion
- □ US Debt as a Percentage of GDP: Then ~38%; Now 74.2%
- □ US Deficit (LTM): Then \$97 billion; Now \$975.6 billion
- □ Total US Debt Outstanding: Then \$9.008 trillion; Now \$16.43 trillion
- □ Consumer Confidence: Then 99.5; Now 69.6
- □ S&P Rating of the US: Then AAA; Now AA+

These statistics make it abundantly clear that, while the market is at new all time highs, the economy is not as healthy as the last time we were at this level.



We continue to appreciate the increase in market values and admire the resilience of the market to rally in the face of a consistent stream of negative news (i.e. the sequester, Italian elections, N. Korean threats, Cyprus bailout, etc.). That said, we are concerned that the market is repeating the viscous cycle of complacency that was so prevalent in 2006 – 2007. It is really hard to fathom that so many market participants have embraced the “risk on” trade and believe that the risks of the market have vaporized as a result of the incredibly large, and incredibly artificial, monetary stimulus of central banks around the world. Eventually countries have to grow and jobs must be created. The concept that the government can help the economy “fake it until it makes it” is extremely dangerous and, to make matters worse, they are making that bet with taxpayer money!

Only time will tell how this story will end, but we are concerned that there will be a very large price to pay for the complacency that is apparent today. We continue to be a “2” on the CAZ Scale. (CAZ Scale = 1 – 5 with 5 being the most optimistic.) The result is that we will continue to manage risk first while participating in as much of the rally as we can without being cavalier. Our portfolios are acting well as a result of good investment selection, and we will do our best to continue that trend. We will not hesitate to become even more protective if the market rise continues, though. In the portfolios that are allowed to hold cash, we now have the largest cash position we have had since the spring of 2008. It is very hard to find compelling investments, so we will be patient with capital.

Your trust and confidence means more to us than you can imagine. Our firm just completed the best quarter we have had with regards to referrals from existing clients. We thank you for that, and we are extremely gratified that our clients think highly enough of us to introduce us to their associates. Please let us know how you like the format of the correspondence you receive and be on the lookout for additional changes in the manner we communicate with you. These are exciting times in the life of our business, and we look forward to sharing new developments and opportunities with you as we progress through the year. All of our very best to a healthy and prosperous 2013!

