



## VIEW FROM VISTA

April 12, 2002

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the first quarter of 2002. It was a mixed quarter for the world's financial markets. The average diversified U.S. stock fund squeaked out a .36% gain in the first quarter. Among the worst performing sectors was, yet again, technology with the average tech fund down 7.6%. The best performing asset class was international emerging-markets' 12.2% return. The average taxable bond fund edged up 0.15%. Consider:

- Taxable bond funds took in a whopping \$86 billion in 2001 after losing assets in 2000. And so far in 2002, this category has attracted another \$28 billion. *Once again, just like clockwork, investors are chasing the hot asset class. We wonder if they realize interest rates are at historic lows and that these same bond funds will likely see negative returns in a rising interest rate environment.*
- We saved an advertisement from the Wall Street Journal placed by one of the nation's largest brokerage firms. In it they ask you to "Rebalance your portfolio with the guidance of one of our financial advisors. Call about these investments today." The ad goes on to list the investments as fixed income, preservation portfolio, protected growth, municipal bonds, fixed annuities and corporate bond funds. *We found it ironic that all of the investments listed are the hot asset classes. The process of rebalancing is supposed to involve selling out of the best-performing asset classes and buying those that have gone out of favor. Once again, the brokerage industry has it backwards.*
- The popularity of hedge funds continue to explode, with \$144 billion of new money pouring into them in 2001, up 73% from the record \$83 billion invested in 2000. *We're not even sure where to begin here. Hedge funds typically charge close to 2% of assets under management and take 20% of the upside, but give back nothing on the downside. What does one get for these outrageous fees? Ultimately, just another way to invest in stocks and bonds. What you will get is mediocre returns (primarily because of the high fees and low tax efficiency) and high risk (hedge funds are not regulated by the SEC and are often highly leveraged).*
- The Russell 2000 Growth Index still trades at historically high valuations, 40 times forward earnings and 1.8 times sales. By comparison, the Russell 2000 Value index is trading for just 17 times earnings and .9 times sales. *Yet another sign of how dramatically overvalued growth stocks were at the peak.*
- Mutual funds distributed \$72 billion in realized gains in 2001, down from a record \$326 billion paid out in 2000. *Pity the poor mutual fund investor that paid taxes on these gains during a time when most probably lost half of their investments.*
- Many international investors are saying U.S. asset prices are overvalued by historical standards.

The dollar is at a 16-year trade-weighted high, U.S. stock valuations are at a 25-year high compared with Europe's and are trading at a 56% premium to emerging markets, nearly a historic high. *Even more reason to have an international stock allocation.*

- The NASDAQ closed the first quarter of 2002 trading at 1845, down from its high of 5048 set on March 10, 2000. Assuming 10% annualized returns the NASDAQ will again reach 5048 sometime in 2012. *It could be a long wait for those hoping for a quick rebound.*
- The productivity of U.S. workers rose 1.9% in 2001, down from 3.3% growth in 2000, but still regarded by economists as a very impressive number in the face of an economic downturn. *It looks like there really are some lasting benefits to the technology boom.*
- Fed Chairman Alan Greenspan recently told the Senate, "The recent evidence increasingly suggests that an economic expansion is already well under way." *Let's hope he's right.*

Despite all of the recent negative news in the media concerning Enron, accounting issues, tech and telecom companies and September 11th, let's not forget the American economy has endured similar hardships before. This is (or was) the tenth recession since World War II. The previous nine all ended and each time the stock market was the first to signal an upturn, usually when the news was worst and unemployment at its highest. During this time, the earnings of U.S. companies grew 50-fold and the stocks of these companies did even better. There is simply no other investment option that can match the long-term performance potential of stocks.

Below you will see a table of 2002 returns for most of the major asset classes. As always, we welcome your calls and e-mails. Thank you for being a client.

Sincerely,

Douglas E. Johanson, CFA      Michael J. O'Reilly

Comparative Returns:

Index	2002 Returns	Description
S&P 500	+2%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
NASDAQ	-5.4%	<i>Large Cap Stocks.</i> Primarily growth-oriented U.S. companies. Dominated by tech stocks.
Dow Jones Industrial Average	+4.3%	<i>Large Cap Stocks.</i> 30 of the largest, most mature U.S. companies.
Russell 2000	+4.0%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	+5%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Lehman Bros. Aggregate Bond	+1%	<i>Bonds.</i> Represents the performance of the entire US bond market.