



## VIEW FROM VISTA

October 8, 2002

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the third quarter of 2002. It was another negative quarter in what has become a nightmare of a year for investors. The third quarter alone saw the Dow down 17.9%, the NASDAQ fall 19.9% and the S&P 500 sink 17.6%. This was the worst quarter for the Dow and S&P 500 since 1987. International markets offered no shelter from the storm. European stocks, for example, were down 23% in the third quarter and are now down nearly 35% on the year, a 5 ½ year low. Bonds were the sole bright spot, with the average U.S. bond fund gaining 5% in the third quarter and up 9.4% this year. The result of all this is that nearly all the world's major stock markets are trading at valuation levels that are average to below-average from a historical perspective. While the markets may or may not continue their decline, the odds are high that, from this point forward, intermediate-to-long term returns will be strong. Consider:

- The end of the third quarter marked the 921<sup>st</sup> day of the bear market, with the S&P 500 down 47%. The bear market of 1973-1974 lasted 600+ days and declined 45%. The average diversified U.S. stock fund is now down 8.4% annually over the past three years and close to being negative over the last five years. *And patience is wearing thin among investors.*
- Investors pulled \$52 billion from stock funds in July, a record dollar amount. It was the largest exodus ever in dollar terms and the second largest in percentage terms at 1.7%. Bond funds attracted an estimated \$19 billion in July. *A sign that the market may be approaching the bottom.*
- In the second quarter of 2002, a record 1.23% of all home loans were in the foreclosure process and a near record 4.8% at least 30 days delinquent. *We are becoming increasingly concerned about a real estate bubble and the possible effects of a collapse.*
- With the dividend yield on the Dow at 2.48% and the 10-year U.S. Treasury yielding 3.66%, if the Dow goes up only 1.2% a year on average during the next 10 years, it will have been a more-attractive investment than today's 10-year Treasury. *You wouldn't think that would be very difficult.*
- Treasury bonds had one of their best quarters of performance in a decade. Yields, which move inversely to prices, reached historic lows. The two-year yield reached its lowest level since regular issuance of the maturity began in 1972. The 10-year's yield of 3.59% is its lowest since 1958. *Another sign that this market is taking things to extreme levels. These low levels of rates are not sustainable in any scenario other than a prolonged recession.*
- Since 1970 there have been seven significant market corrections of 20% or more. The average 12-month return following the market bottom was 34% and the average 24-month return was 50%. *Gives us all reason for hope.*
- Jeremy Siegel, finance professor at the Wharton School, writes "...it is patently wrong to warn investors about stocks now that they have declined by more than 50%.....there have been six

major stock market peaks (including the 1929-32 stock market crash) in the last 100 years. To be sure, investors would have suffered significant negative returns if they invested at these market peaks. But after the market has dropped by 40%, subsequent five-year returns have averaged 8.6% per year above inflation and none has been negative. And all subsequent 15-, 20- and 30-year returns have not only been positive, but have also been above the 7% long run average real return on stocks.” *Good perspective.*

In searching for the right words to communicate our thoughts and convictions in the midst of this bear market, we came across a recent ad by the Oppenheimer Funds in the Wall Street Journal. We were struck by its simple eloquence and felt it deserved repeating:

“There are two times when people forget their investment principles - at the top of the market and at the bottom. It wasn’t easy sticking to long-term principles when it seemed like everybody else was getting rich in the short term. It’s even tougher now, when the tide has turned and you see the investments you’ve counted on for your future begin to shrink before your eyes. But the fact is, basic investment principles are most important precisely at the times when they seem most irrelevant. There have been 30 bear markets in the last 100 years – each one followed by a recovery. The people who have weathered the storms and reached their goals have been the people who have had the courage of their convictions. So stay the course. Focus on your on long-term goals. And work closely with your financial advisor. The principles of investing aren’t exciting or easy. All they are is true.”

You can expect Vista to be disciplined and follow a consistent, time-tested process for investing your assets. 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	Y-T-D 2002 Returns	Description
S&P 500	-29.0%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
NASDAQ	-39.9%	<i>Large Cap Stocks.</i> Primarily growth-oriented U.S. companies. Dominated by tech stocks.
Dow Jones Industrial Average	-24.2%	<i>Large Cap Stocks.</i> 30 of the largest, most mature U.S. companies.
Russell 2000	-25.8%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	-22.3%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Lehman Bros. Aggregate Bond	+8.6%	<i>Bonds.</i> Represents the performance of the entire US bond market.

