



## VIEW FROM VISTA

April 15, 2003

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the first quarter of 2003. Proving once again that the fear of the unknown is the greatest fear of all, the stock market experienced exceptional volatility leading up to the war with Iraq. While most of the hard work in Iraq lies ahead, a military victory for America appears certain. We are hopeful a quick end to the war will help to stabilize the financial markets and allow the country to focus its efforts back on improving the economy.

In the end, it was more of the same when the first quarter came to a close. The average diversified U.S. stock fund was down 3.3% while the average taxable bond fund closed up 2.1%. Global uncertainty combined with almost non-existent inflation drove U.S. Treasury yields to four-decade lows. As we move into the fourth year of a brutal bear market for stocks, one that has driven most major markets down 40% or more from their highs, we believe the risk/return ratio favors stocks over bonds.

- U.S. productivity grew 4.8% in 2002, the fastest rate since 1950. *Although tough on the labor market (increased productivity = fewer jobs), this is a very good sign for the long-term health of the U.S. economy as it allows companies to squeeze more goods out of each worker, leading to higher profits.*
- A new study, conducted by finance professor Matthew R. Morey of New York's Pace University, concludes that mutual funds given high ratings by Morningstar don't necessarily perform better than those with lower ratings. *We have never been believers in Morningstar's rating system, but we do use their unmatched database of information.*
- Gold funds outpaced every other fund category in 2002 with a gain of more than 63%. *And, you guessed it, investors followed by adding \$829 million in new money to gold funds.*
- At the end of 2002, stocks trailed bonds by nearly 26% annually over the previous three years. That's the biggest lead bonds have had over stocks since the three years ending in May 1933. *That's 26% annually! An incredible difference.*
- Unemployment now stands at 5.8% and the percentage of unemployed people who have been looking for work for 27 weeks or more rose to 22.1%, nearly the highest in 20 years. *Not a good time to be looking for a job.*
- Investors poured nearly \$44 billion into bond funds and pulled \$7 billion out of stock funds in the first quarter. Investors have now taken money out of stock funds in eight of the past nine months and the total going into bond funds remains at record levels. *Apparently forgetting the value of a long-term bond fund might fall 20% if rates rise just two percentage points.*
- A new academic study by researchers at Purdue University shows that funds can attract investors simply by adding trendy words (i.e. "growth") to their name. Funds that changed their name

were found to attract 22% more new money than funds of similar size. *Rest assured, name changes do not play a part in Vista's analysis.*

- Periods of multi-year negative returns and ensuing recoveries since 1926:

<u>Event</u>	<u>Years</u>	<u>Category</u>	<u>Return</u>
Depression	1929-32	Large Stocks	-64.2%
	1933-36		200.1%
World War II	1939-41	Large Stocks	-20.6%
			147.5%
Inflation / Oil Embargo	1973-74	Large Stocks	-37.2%
	1975-78		68.1%
Technology Bubble	2000-02	Large Stocks	-37.6%
	2003-		??

source: Ibbotson

The decline in stock prices has increased the margin of safety. There are many quality, large company stocks trading with a below historical-market-average P/E of 15 or less and a dividend yield greater than the current 10-year Treasury's 4.0% yield. While stocks may not be dramatically cheap on a historical basis, the abundance of stocks trading at reasonable valuations combined with low interest rates, increasing productivity, record money market levels and excessive negative sentiment all lead us to believe that better times are ahead.

Below you will see a table of 2003 returns for most of the major asset classes. As always, we welcome your calls and e-mails and look forward to our next account review. Thank you for being a client.

Sincerely,

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

Comparative Returns:

<b>Index</b>	<b>2003 Returns</b>	<b>Description</b>
S&P 500	-3.2%	<i>Large Cap Stocks. 500 of the largest U.S. companies in all sectors of the economy.</i>
Russell 2000	+4.5%	<i>Small Cap Stocks. A broadly diversified index consisting of about 2000 small companies.</i>
MSCI EAFE	-8.8%	<i>International Stocks. An aggregate of 21 major country indexes, excluding the U.S.</i>
NASDAQ	+0.4%	<i>Large Cap Stocks. Primarily growth-oriented U.S. companies. Dominated by tech stocks.</i>
Lehman Bros. Aggregate Bond	+1.4%	<i>Bonds. Represents the performance of the entire US bond market.</i>