



## VIEW FROM VISTA

July 7, 2003

Dear Valued Client,

You can go ahead and uncover your eyes now, as the train wreck of a stock market that lasted for over three years appears to be over, at least for the time being.

The financial markets reacted to a flurry of good news in the second quarter. A quick victory in the war with Iraq, solid first quarter earnings results, declining interest rates and another round of federal tax cuts sent investors on a buying spree that resulted in the Dow Jones gaining 12% for the quarter and the NASDAQ jumping 21%. The Dow's 12% gain was the blue chips best since the fourth quarter of 2001. Bonds continued their run, with the Lehman Aggregate Bond Index ending the first half of 2003 up nearly 4%. Even small cap and international stocks joined the party, with the Russell 2000 and MSCI-EAFE indices ending up over 7% and 17%, respectively, year-to-date. Vista's disciplined approach to investing resulted in strong returns for our clients, as our portfolios were fully invested and benefited from a rebalancing out of bonds and into stocks over the previous two quarters. Consider:

- President Bush's tax cut resulted in a reduction in both the tax on dividends and long-term gains. Dividends are now taxed at 15% instead of as ordinary income with a previous max of 38.6%. The tax on long-term gains was reduced from 20% to 15%. *These cuts will be especially beneficial to our clients due to Vista's focus on large cap value, dividend-paying stocks and our extreme reluctance to realize short-term gains.*
- The Lehman Brothers Aggregate Bond Index is up an annualized 7.1% over the past five years, compared with a 1.6% annual loss for the S&P 500-stock index. *One of the largest spreads in history.*
- A recent survey by Investors Intelligence found a full 60% of investment advisors bullish and a mere 16% bearish. This is the lowest percentage of bears since April 1987. *Given our view that these types of surveys are contrarian indicators, we are not pleased about our investment advisor brethren's giddiness. Remember what happened in the Fall of 1987*
- Federal Reserve Chairman Alan Greenspan continues to emphasize the importance of keeping the U.S. from sliding into deflation, citing the harmful effects and the difficulty in escaping its grips. *The business investment boom of the 1990's, the spread of technology and emergence of China as a manufacturing power have all increased the world's capacity to supply goods, while at the same time global demand is weak due to the bursting of the stock market bubble, economic plagues, terrorism, war and corruption.*
- During the past 25 years, rebalancing at least once a year on a portfolio with a target split of 60% stocks and 40% bonds cut the risk of the portfolio by nearly 20%, according to Ibbotson. *The process of rebalancing, adjusting your investments to match your target mix, sounds simple, but selling shares*

*in your best-performing asset class and putting them into your worst performing asset class goes against human nature and requires unemotional discipline.*

- Since March 2001, when the recession officially began, the U.S. economy has lost 2.1 million jobs, making this the most protracted job-market downturn since the Great Depression. *The main reason why the economy's current recovery feels so anemic.*
- The yield on the 10-year Treasury note plunged to 3.51%, its lowest yield since August 1958. *Time to refinance. Not the time to buy long-term bonds.*
- Less than half of all large cap stock funds were able to beat the S&P 500's return for the three years through February and less than one quarter managed to top the S&P 500 over the last 10 years. *Exactly the reason we favor index funds and buy-and-hold stock portfolios for this asset class.*

As a client of Vista Capital Partners, you have probably heard us refer to our belief in bringing an institutional approach to managing money to high net worth individuals. Our business and investment philosophy is structured around this premise. An "institutional approach" encompasses a range of strategies - from diversification via asset allocation to a disciplined rebalancing process to a fixation on minimizing the costs of investing. Market-timing, idle boasts of beating the market and frequent trading are most definitely not part of our approach. Jonathan Clements of the Wall Street Journal recently wrote an article that comes close to perfectly articulating why an institutional approach to investing is so appropriate for the individual investor. We have included a reprint of this article in this packet for your review.

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 meeting. Thank you for being a client.

Sincerely,



Douglas E. Johanson, CFA



Michael J. O'Reilly

Comparative Returns:

Index	2003 Returns	Description
S&P 500	+10.8%	<i>Large Cap Stocks. 500 of the largest U.S. companies in all sectors of the economy.</i>
Russell 2000	+17.0%	<i>Small Cap Stocks. A broadly diversified index consisting of about 2000 small companies.</i>
MSCI EAFE	+7.7%	<i>International Stocks. An aggregate of 21 major country indexes, excluding the U.S.</i>
NASDAQ	+21.5%	<i>Large Cap Stocks. Primarily growth-oriented U.S. companies. Dominated by tech stocks.</i>
Lehman Bros. Aggregate Bond	+3.9%	<i>Bonds. Represents the performance of the entire US bond market.</i>