



VIEW FROM VISTA

January 13, 2004

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the fourth quarter of 2003. The year ended strong, as a combination of tax cuts, low interest rates, a weaker dollar and low inventories continued to propel corporate earnings and economic growth. Financial markets added to what was already a spectacular year, with nearly every major index experiencing a double-digit gain for the quarter. The Dow Jones Industrial Average finished 2003 at 10,453, up 25.3% for the year. The Dow is now up 44% from its low set on October 9, 2002, and the tech-heavy NASDAQ Composite Index, up 50% for the year, has risen 80% since its low that same day. For perspective, the Dow's recent run-up still leaves it 11% below its January 2000 peak and the NASDAQ is still down a remarkable 60% from its high set in March 2000. In an environment of strong stock market returns and economic growth, one would typically expect bonds to suffer. Not this year. The average bond fund was essentially flat in the fourth quarter and returned 7.7% for the year. After three years of pain, the market finally gave investors a gain.

Taken as a whole, the pieces of data that help paint an economic picture are remarkably strong. Consider:

- Underlying inflation, as measured by the "core" consumer price index (CPI) that excludes the volatile food and energy categories, fell -.1% in November and is up only 1.1% over the last 12 months. *This is the lowest 12-month increase since 1993.*
- The productivity of U.S. workers continues to show explosive gains, rising at an annual rate of 9.4% in the third quarter. *The best quarterly performance in 20 years.*
- The U.S. economy, as measured by its gross domestic product (GDP), grew at an annual rate of 8.2% in the third quarter. *The strongest pace of growth in nearly 20 years.*
- Manufacturing activity, as measured by the Institute of Supply Management's index of manufacturing activity, posted its best gain in 20 years, while the new-orders index increased to its highest level in over 50 years.
- Profits of all American companies surged 30% in the third quarter vs. the same quarter in 2002. *The largest year-over-year-growth in 19 years, a result of the aforementioned gains in productivity (fewer workers producing more goods, helping to contain costs) and economic growth (which spurs revenue gains).*
- Over the past 20 years, there were 13 calendar years when there was at least a 10-percentage-point difference between the performance of U.S. and foreign stocks. *Investing abroad makes sense, as international stocks, especially international small company stocks, add diversification and a low correlation to a portfolio of domestic investments.*
- Economists at Alliance Capital Management looked at worldwide employment trends from 1995 to 2002 and found that 22 million jobs in the manufacturing sector were eliminated, a decline of more than 11%. And, contrary to conventional U.S. beliefs, American manufacturing workers weren't the

biggest losers. *Concerns of U.S. manufacturing jobs being stolen by cheap foreign labor are misplaced. Technology, gains in productivity and broad demographic trends are transforming job markets throughout the world.*

- Donald Rumsfeld, our esteemed Defense Secretary, provided us with the following bit of philosophy last February: “There are known knowns, there are things we know we know. We also know there are known unknowns; that is to say, we know there are some things we do not know. But there are also unknown unknowns – the ones we don’t know, we don’t know.” *Sounds like Mr. Rumsfeld should have been an investment advisor.*

In light of the huge stock market gains of the late 90’s, the bear market of 2000-2002 and, finally, the double-digit gains of 2003, we don’t blame investors for feeling a little disoriented. Stocks and real estate both look expensive from a historical perspective and interest rates remain at 45-year lows, making bonds and cash a rather unattractive alternative. Given this environment, it is more important than ever to stick to the basics of long-term investing. This begins with your investment plan – a plan that is designed to guide us through various market cycles given your income needs, tolerance for risk, tax situation and time horizon. Recognizing the difficulty of predicting next year’s best performing investment, we will continue to allocate your money across most, if not all, of the major asset classes, including stocks, bonds, real estate and cash. As always, we will focus on low costs and tax efficiency, factors that take on even greater importance if future returns are lower. Finally, we will emphasize dividend-paying stocks (due to overall high P/E’s and the new, lower 15% tax rate on dividends), and types of bonds that will hold up well in a rising interest rate environment.

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 or conversation. Thank you for your referrals and for being a client in 2003.

Sincerely,



Douglas E. Johanson, CFA



Michael J. O’Reilly

Comparative Returns:

Index	2003 Returns	Description
S&P 500	+28.70%	<i>Large Cap Stocks. 500 of the largest U.S. companies in all sectors of the economy.</i>
Russell 2000	+47.30%	<i>Small Cap Stocks. A broadly diversified index consisting of about 2000 small companies.</i>
MSCI EAFE	+38.60%	<i>International Stocks. An aggregate of 21 major country indexes, excluding the U.S.</i>
Wilshire REIT	+36.10%	<i>Real Estate. Measures the performance of publicly traded real estate equity.</i>
Lehman Bros. Aggregate Bond	+4.10%	<i>Bonds. Represents the performance of the entire US bond market.</i>