VIEW FROM VISTA

January 12, 2005

Dear Valued Client,

Thanks to a year-end rally, stocks finished 2004 with their first two-year winning streak since 1999. The Dow Jones Industrial Average and S&P 500, both showing losses through mid-October, ended up 5.31% and 10.88% respectively for the year. The declining U.S. dollar helped international stocks post strong returns (MSCI EAFE +20.25%) while small cap stocks and real estate continued their terrific runs (Russell 2000 +18.33%, Wilshire REIT +33.82%). Even bonds, which were predicted to fall this year, delivered modest returns (Lehman Aggregate +4.34%). Not a bad year, given the many economic crosscurrents at work in the markets.

This year was another good one for Vista's clients. In particular, our clients benefited from our philosophy of meaningful allocation to investments outside of mainstream U.S. stocks and bonds. Small company stocks, international stocks, REITs, Treasury-Inflation Protected Securities and high-yield bonds all outperformed the more widely-held and followed areas of the financial markets. On the heels of preserving our clients' assets during the bear market of 2000-2002, we are pleased to be participating, and then some, in the subsequent recovery. Consider:

- The Federal Reserve raised short-term interest rates five times last year (the most since 1994) leaving them at their highest level in three years (2.25%). Despite the rate hikes, the yield on the benchmark 10-year treasury actually fell from 4.25% to 4.22%. *Falling intermediate bond yields in the face of rising short-term rates is a rare occurrence. In a Wall Street Journal survey conducted in February 2004, 53 of 55 economists participating thought this rate would rise in 2004.*
- After peaking at $55/barrel, oil ended the year around $44, easing some of the fears that high prices would derail the economic expansion. *While conventional wisdom may suggest otherwise, we are skeptical of oil's ability to remain at today's high prices given the marginal cost of producing a barrel of oil is only around $15/barrel. That is a lot of incentive for those oil cartels and companies to discover and pump out more oil.*
- Rising raw material costs and higher labor costs are putting pressure on corporate profits. A Blue Chip Economic Indicators survey shows economy-wide profits are expected to rise by about 10% in 2005 compared to a 15% increase last year. *Decelerating earnings growth combined with rising interest rates could create a headwind for stocks, so we are cautious in our outlook for the year ahead.*
- After their spectacular fall from grace and subsequent under-performance, growth stocks seem relatively attractive. According to the research firm, Leuthold Group, large cap growth stocks are the cheapest they have been relative to large cap value stocks in over a decade. *This is exactly the type of opportunity our disciplined rebalancing process looks to exploit.*
- Strong returns the past five years have drawn investors into REITs even as prices reach new highs. Fund tracker, AMG Data Services, reports that investors pumped a record $7.55 billion into real estate funds in 2004. *Probably not the best time to load up on REITs.*

Investment Focus

A topic on many investors' minds these days is how to invest internationally to take advantage of the declining value of the U.S. dollar. For years, foreigners were willing to prop up the value of the U.S. dollar in an effort to make their goods more attractive (cheaper) when exported to U.S. consumers. The dollar has declined steadily, however, over the last 2-3 years as foreigners' appetite for the currency has diminished in the face of, among other things, a growing federal budget deficit.

An investor hoping to benefit from a falling dollar can invest in the financial instruments of foreign countries, as they are worth more when converted back into U.S. dollars. And invest they have, as foreign-stock funds pulled in over $50 billion in 2004, an amazing 200% increase from the year before.

There is only one problem. Maybe the value of the dollar is NOT going to continue to fall. Most of the damage to the dollar may have already been done. When everyone "knows" something is going to happen, we (Vista) tend to raise an eyebrow. Pardon us for our skepticism, but haven't we seen this before? Investors, for example, knew tech stocks were going to grow to the moon in the New Economy (the NASDAQ is still down over 60% from its high), and investors have known for the last 2-3 years that interest rates were going to rise sharply from their historical lows (interest rates remain near these lows).

Here at Vista the only thing we "know" is that chasing short-term trends is a short cut to the poor house. An allocation to international stocks and/or bonds has always been an important part of our clients' portfolios. We don't want our clients missing the boat should the U.S. enter a period of prolonged underperformance relative to the rest of the world. We also believe small international companies provide greater benefits than large companies. Historically, foreign small cap stocks have been less correlated to the U.S. market and have provided greater returns. Finally, we shy away from funds that hedge their currency exposure, as this eliminates their ability to benefit from a falling dollar.

Private Wealth Management

Longer life spans, and the corresponding health issues associated with old age, have forced millions of Americans to face the difficult prospect of paying for costly long-term care. Experts estimate that more than 40% of all Americans will spend time in a nursing home during their lifetimes, at a current cost of $40,000 to $80,000 per year. The issue of how to pay for this long-term care has become a major concern for Americans.

One way consumers look to provide for long-term care is by purchasing long-term care insurance. Long-term care insurance can be expensive, however and like most insurance products offers differing levels of coverage and varying premiums that may not make it right for everyone.

In general, we advocate our clients consider long-term care insurance in concert with their age and overall finances. Long-term care insurance should not be purchased before age 60 except by those with chronic illnesses. People purchasing insurance earlier might pay annual premiums for 30+ years without knowing if they will ever need care. For people with less than $200,000 in total assets, long-term care insurance rarely makes sense because Medicaid will likely pay their nursing-home expenses. Similarly, people with a net worth in excess of $1.5 million can easily afford nursing-home and home-care costs, so this ability to “self-insure” makes insurance an unnecessary expense. Although many people within this range might do well to self-insure the entire risk, there are also reasons to consider shifting part of the risk to an insurer. This would be particularly true for someone with a chronic illness or no family member to care for them, or if they would like to protect their assets for other reasons.

New at Vista

We are pleased to introduce Chris Barnes as the newest addition to our team. Chris is providing client service and assisting Michael with business development. Prior to joining Vista, Chris was a Client Service Specialist at The Charles Schwab & Company and an investment representative with Fidelity Investments. She brings to Vista an intimate understanding of both the operational and investment sides of our business. A native Oregonian and Beaverton High School/Portland State University graduate, Chris has two children – Stephanie and Taylor – who keep her busy with their school and sporting activities. We are extremely fortunate to have someone with Chris’ experience as a part of our team.

Below you will see a table of 2004 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.

Sincerely yours,

Vista Capital Partners

Comparative Returns:

Index	2005 Returns	Description
S&P 500	+10.87%	*Large Cap Stocks. 500 of the largest U.S. companies in all sectors of the economy.*
Russell 2000	+18.33%	*Small Cap Stocks. A broadly diversified index consisting of about 2000 small companies.*
MSCI EAFE	+20.25%	*International Stocks. An aggregate of 21 major country indexes, excluding the U.S.*
Wilshire REIT	+33.82%	*Real Estate. Measures the performance of publicly traded real estate equity.*
Lehman Bros. Aggregate Bond	+4.34%	*Bonds. Represents the performance of the entire US bond market.*