



VIEW FROM VISTA

April 10, 2006

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the first quarter of 2006. The equity markets are off to a strong start in 2006, with most major indices booking gains. In response to the Federal Reserve's 15th consecutive hike in interest rates, bond returns fell by 0.6%. Real estate investment trusts (REITs) made the strongest showing with the Wilshire REIT Index up nearly 16% for the quarter. Small cap stocks outperformed large caps in the quarter (Russell 2000 +13.9%, S&P 500 +4.2%), continuing a longer-term trend. Over the past five years, the average small cap mutual fund has outperformed the average large cap fund by nearly 10% per year (13.3% vs. 2.6% annualized). We continue to be pleased with how our clients' portfolios have fared in the past five years. In an environment in which \$1 invested in U.S. large cap growth stocks is now worth 95 cents, our dedicated exposure to asset classes such as small cap value stocks, REITs and international and emerging market stocks has bolstered client returns. We are confident our diversified and disciplined approach will continue to serve you well in the years ahead.

Some of our observations on the financial markets:

- The Vanguard 500 Index Fund will celebrate its 30th anniversary later this year and despite delivering returns that have historically outperformed roughly 80% of all U.S. equity mutual funds, the venerable Vanguard fund has not always been well embraced. Upon the index fund's launch in 1976, Fidelity chairman Ed Johnson III stated, "I can't believe that the great mass of investors are going to be satisfied with an ultimate goal of just achieving average returns." *If "average" means achieving returns superior to 80% of all other funds, we'll take average every day of the week.*
- A high-flying Atlanta hedge fund manager was recently sued for allegedly stealing \$185 million in client assets to fund his lavish lifestyle. What drew high-profile athletes and prominent physicians to invest in his hedge fund? The fund's investment strategy, of course, based on a "top-down, bottom-up process that identifies disparities in the economy or security sectors creating +/- changes in market perception." *Huh? Throw in some garlic, sausage and other seasonings and you've got yourself some mumbo jumbo gumbo.*
- With four years left in this decade, returns from the S&P 500 Index are still in negative territory. Even if returns equal 10% per year for the next four years, large cap stocks will finish the decade with an average annual return of only 4%, the worst return decade since the 1930's. *Given that most mutual funds lag the index over time, the math is even nastier for many fund investors who pay high fees for active management. Now is the time to exercise patience, focus on saving and keep an eye on spending.*
- Since the Federal Reserve raised interest rates to 4.75%, investors have grown increasingly worried that such actions will hurt their bond portfolios (when interest rates rise, bond prices decline). Conventional wisdom holds investors should not own bonds in a rising rate environment. *Long-term investors, however, actually benefit from rising rates as their reinvested interest payments can be put to work at higher yields. This is an added bonus to bonds' primary role in a portfolio – capital preservation and lower volatility.*

Investment Focus

Investors, including many of our clients, have been clamoring for more international and small company stocks, questioning the prospects of large U.S. companies such as Coca-Cola and Citigroup. Given recent performance numbers, this should come as no surprise. Large and small cap international stocks, as well as U.S. small cap stocks, have returned in excess of 30% per year over the last three years, with double-digit gains over five years. Compare this to U.S. large cap stocks, as measured by the S&P 500, that are up “only” 17% per year over three years and in negative territory for the six-plus years of this decade. Inferior returns, a weakening U.S. dollar and our country’s mounting budget deficit have caused investors to ignore the stocks of large U.S. companies.

This could be a mistake. Six years of little to no growth in stock prices combined with robust corporate earnings growth have left large cap U.S. stocks at their most attractive level in years. Russell Investment Group says the 1,000 biggest U.S. public companies trade nearly 25% below their average P/E ratio of the past decade. Due to their perceived safety and higher quality, large caps have historically traded at a premium to international and small company stocks. Large caps now trade roughly in line with their international peers and at a slight discount to small caps.

It is precisely at times such as these that Vista’s investment philosophy would lead us to buy more large cap U.S. stocks while selling international and small company stocks. While contrary to human nature, this disciplined rebalancing process forces us to sell high and buy low when our emotions may encourage us to do otherwise. The financial markets and the asset classes within these markets have demonstrated time and time again that regression to the mean is a powerful and inevitable force. Using this knowledge to our advantage results in higher performance and less risk.

Private Wealth Management

Gifting assets to family members can provide a donor with potential tax benefits and the rewarding feeling of helping loved ones. Here are some gifting basics:

- Currently a donor may gift up to \$12,000 a year (\$24,000 for a couple) to as many individuals as desired without triggering the gift tax. If a gift exceeds this annual limit, the excess amount is not taxed immediately, but counts against the donor’s \$1 million lifetime gift exclusion. This, in turn, lowers the amount of the donor’s estate sheltered from tax upon death (currently \$2 million).
- There is no limit for gifts given to pay for qualified education expenses (tuition only) or medical expenses (including insurance costs). To be eligible, these payments must be made directly to the educational institution or care provider. Importantly, recipients of gifts are still eligible to receive the standard \$12,000 annual gift.
- A donor is permitted to gift up to five times the annual limit (currently \$60,000) when funding a child’s 529 college savings plan. Gift tax will not apply as long as no additional gifts are made to the individual for at least 5 years.
- Gifting reduces the donor’s estate. For those with assets that exceed the estate tax exclusion amount (currently \$2 million), gifting can result in meaningful tax savings (assets above the exclusion amount can be taxed as high as 46%).
- Choosing assets for gifting requires careful consideration. Gifted assets carry over the donor’s cost basis while inherited assets receive a stepped-up basis. This distinction may lead a donor to gift appreciated securities in one instance (shifting the tax liability to a family member in a low tax bracket) and cash in another (leaving appreciated stock to receive the step up in basis to avoid taxes all together).

Gift-giving can play an important role in an estate plan. There are many rules to consider and the exclusion amounts change from year to year. Consulting regularly with your advisor and/or attorney will help ensure you're making the most of this useful tool.

Other

Congratulations are in order for one of Vista's Senior Portfolio Managers, Dougal Williams. Dougal was recently awarded the Chartered Financial Analyst (CFA) designation, giving Vista its third CFA charterholder. Earning the CFA charter requires a dedicated effort over a minimum of three years to pass three six-hour examinations covering globally relevant topics set by an international council of investment-industry leaders. It's worth noting that 80% of people who enroll in the CFA program never obtain the designation. A successful candidate must also adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct. Fortunately for Dougal and his wife Katy, he finished this grueling process prior to the arrival of Baby Williams, who is expected any day.

Thank you for being a client and for your continued trust, confidence and referrals. We welcome your calls and e-mails and look forward to our next meeting or conversation.

Sincerely yours,

Vista Capital Partners

Comparative Returns:

Index	2006 Returns	Description
S&P 500	+4.2%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
Russell 2000	+13.9%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	+9.5%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Wilshire REIT	+15.8%	<i>Real Estate.</i> Measures the performance of publicly traded real estate equity.
Lehman Bros. Aggregate Bond	-0.6%	<i>Bonds.</i> Represents the performance of the entire US bond market.