



VIEW FROM VISTA

January 9, 2007

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the fourth quarter of 2006. The stock market continued its upward march, providing investors an exceptional year of returns. In October, the Dow broke through the 12,000 point barrier for the first time ever and ended the year up 18.3%. The average U.S. stock fund gained 7% in the quarter and 12.6% for the year. Investments in international equities continued to perform well, as the MSCI EAFE index advanced 10% (+26.9% for the year). Real Estate Investment Trusts (REITs) continued their meteoric run. For the quarter, the Wilshire REIT Index enjoyed a 9% surge that pushed its year-to-date return to 36%. Despite fears over rising inflation and higher interest rates, the average U.S. taxable bond fund rose slightly in the quarter, ending the year up 5%. We are happy to report Vista's clients enjoyed another year of strong returns, as our asset allocated, index-based approach captured the exceptionally strong returns across nearly all equity markets.

Some of our observations on the financial markets:

- "To Win Steadily, Try Not Losing" was a recent headline in the Wall Street Journal. The accompanying article detailed the end of Bill Miller's 15-year streak of beating the S&P 500 index with his Legg Mason Value Trust mutual fund. Unfortunately for shareholders, in 2006 the fund trailed the S&P 500 by nearly 9 percentage points. *Despite the fund's past record, such woeful one-year performance means anyone who bought shares within the last 3½ years has underperformed what they would have earned in a plain ol' S&P 500 index fund.*
- Fewer than 20% of U.S. fund managers running diversified stock funds managed to beat the S&P 500 this year, according to Lipper. *No surprise here. This continues actively-managed funds' dismal record versus index investments. Over the past three- and five-years, the S&P 500 has beaten roughly 69% and 71%, respectively, of actively managed large cap funds.*
- According to Birinyi Associates, the Dow Jones Industrial Average has gone 912 trading days – more than 3 ½ years – without a 2% daily decline, the longest such streak in the history of the Dow. Combined with favorable interest rates and high savings rates across the globe, this lack of volatility has whetted investors' appetite for risk, pushing credit spreads to their lowest in years. *The bottom line: investors are taking on more risk, while getting paid less in return – not a cycle that usually ends well.*
- The Commerce Department reported that despite a 3.4% rise in new home sales in November, that pace is down more than 15% from a year ago. *Looks like the residential real estate rocket may finally have cooled its jets.*

Investment Focus

There are now more than 350 **Exchange-Traded Funds or ETFs**, as they're more commonly known, with total assets in excess of \$400 billion. Over 130 ETFs were launched in 2006 alone and 200 more new offerings are expected this year. Their popularity is growing as investors recognize the advantages ETFs can offer over traditional mutual funds.

ETFs resemble index mutual funds but trade on exchanges like stocks. They can be bought and sold at any time during market hours and their share prices are constantly updated to reflect the underlying securities' most recent values. With the slew of new product offerings, investors have a wide range of ETFs to choose from, including those which focus on specific investment styles, market segments, industry sectors and geographic regions.

Perhaps the most attractive characteristic of ETFs', when compared to traditional funds, is their tax efficiency. Traditional funds buy and sell securities in the portfolio to meet the demands of shareholder purchases and redemptions. During this process, transaction costs are incurred and taxable capital gains may be realized. In contrast, ETFs either receive a basket of the underlying securities for purchases or deliver them for redemptions – shareholder transactions don't increase an ETF's transaction costs or capital gains. ETFs only buy and sell securities in the portfolio when the indexes they are designed to track are reconstituted (one security in the index is replaced with another). This occurs relatively infrequently and the corresponding capital gains are kept to a minimum since the ETF is generally left with only the highest cost shares after distributing the low cost shares to satisfy prior redemptions.

Attracted by their tax-efficiency and low costs, Vista has been investing in ETFs for years. They represent a meaningful part of our clients' portfolios. The iShares Russell 1000 Growth Index Fund (IWF) and the streetTRACKS Wilshire REIT Index Fund (RWR) are two examples of ETFs commonly found in Vista portfolios.

Private Wealth Management

Healthcare expenses seem to be at or near the top of the list of most of our clients' concerns. One relatively new vehicle for addressing these rising costs is the **Health Savings Account (HSA)**. The federal government created the HSA, to be used in combination with a high-deductible health care insurance policy, to encourage people to make wiser, price-conscious choices - in other words, to treat health care spending decisions more like they do other spending decisions. Blending the best qualities of a 401(k) and Roth IRA, HSAs allow consumers to avoid taxes on contributions, investment growth and withdrawals as long as the money is used for qualified medical expenses.

An HSA can be opened with any number of financial institutions, often known as account custodians, such as Wells Fargo, Fidelity and U.S. Bank. To be eligible for an HSA, an individual must have an insurance policy with at least a \$1,100 deductible (\$2,200 for families). Once established, individuals can contribute up to \$2,850 a year to the account (\$5,650 for families). Most HSA custodians provide account holders checks or debit cards to pay qualified expenses until the deductible is met and the insurance policy kicks in.

Once the account is set up and funds are deposited, the money can be withdrawn for qualified health expenses. One strategy to consider, however, is to try to cover these costs with other funds, as the dollars that don't get spent each year continue to compound tax-free, assuming they're eventually used for health care. After age 65, HAS

savings can be used for non-health expenses without penalty. Those withdrawals are simply taxed as income, just like IRA withdrawals. A 10% penalty is levied for non qualified withdrawals prior to age 65.

While HSAs may not be right for everyone – drawbacks range from increased recordkeeping to an incentive to skip what may be necessary care – they offer enough benefits to be seriously considered.

Other

Thanks to continued referrals and strong performance, Vista’s assets under management grew from \$270 million to nearly \$350 million in 2006. Due to our \$1 million new client account minimum, the addition of portfolio manager Adam Cornwell and new office space, we were able to easily manage this growth. Providing the highest level of investment counsel, wealth management and client service to our existing clients has been, and always will be, our number one priority.

The CFA Institute recently named Dougal Williams, one of Vista’s senior portfolio managers, “Most Energetic” among it’s 88,000 international members (please see the enclosed article). We here at Vista can attest to Dougal’s high level of energy. Fortunately, this trait is evident in his work as well as his play.

We will be sending out 2006 tax information – realized gains/losses and a summary of management fees – in a separate mailing soon.

Below you will see a table of year-to-date 2006 returns for most of the major asset classes. 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,

Vista Capital Partners

Comparative Returns:

Index	2006 Returns	Description
S&P 500	+15.8%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
Russell 2000	+18.4%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	+26.9%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Wilshire REIT	+35.9%	<i>Real Estate.</i> Measures the performance of publicly traded real estate equity.
Lehman Bros. Aggregate Bond	+4.3%	<i>Bonds.</i> Represents the performance of the entire US bond market.