



VIEW FROM VISTA

January 8, 2008

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the fourth quarter of 2007. Large company and growth stocks returned to favor last year after a seven-year hiatus. The Dow Jones Industrial Average set a new record high in October and finished the year up +8.9%, while small company stocks stumbled in the fourth quarter to end the year down -1.6%. International and emerging markets stocks—fueled by rapid expansion and a falling U.S. dollar—gained +8.6% and +36.5%, respectively. REITs (Real Estate Investment Trusts), after seven years of stellar returns, fell sharply in the fourth quarter to finish the year down -17.5%. Subprime induced market volatility triggered a flight to quality as investors liquidated risky assets in exchange for the safety of cash and U.S. Treasuries, which surged +10.2% in 2007 on increased demand. Portfolio diversification and investment discipline are never more important than during times of heightened market volatility and investor unease.

Some of our observations on the financial markets:

- Through mid-December, the Dow Jones Industrial Average had experienced 71 days of 100-point-plus moves up or down compared to an average of 38 days over the past three years. *Volatility is back. The surprise to us is not the heightened volatility, but rather how calm the investing waters have been for the past few years. Now's the time to remember the words discipline, patience and perspective.*
- Investors are getting antsy when it comes to holding onto their investments. The average stock-fund holding period has dropped to 4.2 years from 5.8, according to the Bogle Financial Markets Center. Professional investors are even less patient, owning their shares for an average of just 1.2 years, down from three years 30 years ago. *Apparently investors haven't embraced Newton's 4th Law of Motion, as coined by legendary investor Warren Buffet: "For investors as a whole, returns decrease as motion increases."*
- This summer, headlines were filled with Wall Street's alphabet soup of acronyms for exotic investment derivatives: CDOs, CMAs, SIVs, CDSs, CMBSs, and ARMs to name just a few. *We can't help but recall the words of David Swensen, renowned manager of Yale's Endowment Fund: "As a general rule of thumb, the more complexity that exists in a Wall Street creation, the faster and farther investors should run."*

Investment Focus

It seems like the term “subprime” has come to symbolize today’s market ills the same way that “dot-com” did during technology stocks’ infamous decline. With all of the publicity, we thought we’d address some of the frequently asked questions on the subject:

- **How have Vista’s clients’ portfolios been impacted by subprime mortgages?** Direct exposure to subprime mortgage securities has been extremely limited due to our focus on high-quality bond investments. In fact, in our clients’ portfolios, bonds were one of the highest performing asset classes in 2007.
- **How has the economy/market been impacted by the subprime collapse?** Lenders’ appetite for risk has been greatly diminished, making them less inclined to lend to all types of borrowers. This lower supply of credit, known as a “credit crunch,” reduces the rate at which the economy can grow. There is even some concern in the market that the credit crunch might push the economy into recession—defined as two consecutive quarters of negative growth.
- **What effect has the subprime mess had on consumers?** In the wake of the subprime collapse, residential real estate values have declined, lowering household wealth. The question is whether it will lead to lower consumer spending which accounts for more than two thirds of our economy.
- **Given what has happened, should we be investing any differently?** No. Over any meaningful time period, investors should expect markets to experience periodic declines. The economy and capital markets have faced numerous shocks and disruptions over the years and proven to be quite resilient. Vista portfolios have the diversification to weather the markets’ ups and downs. While some asset classes, like domestic small caps and REITs, dropped last year, others went up. Shares in domestic large cap companies advanced due in part, to their growing sales overseas and strong balance sheets. International stocks were also strong gainers, benefiting from the growing world economy and the declining U.S. dollar. Bonds rose too, as investors fled volatile equity markets and sought safer assets.

Private Wealth Management

Most of our clients have a wide range of financial needs that require more than just investments. The start of a new year is often a good time to review all of the components of your wealth management plan. You can think of Vista as your “quarterback”, as we are often in the best position to help you assess your plan to make sure you are taken care of in other important areas outside of your investment portfolio, such as taxes, estate planning, insurance and philanthropy.

While we are continually working to educate ourselves in these areas, we realize it is neither possible, nor optimal, to hold ourselves out as experts in everything. Accordingly, we have built a network of experts—professionals with deep knowledge across this range of advanced specialties—to whom we can refer you when a need is identified. Professionals on your team may include: a CPA to advise on tax matters and prepare returns, an attorney to create an estate plan, and an insurance specialist to provide appropriate coverage for liability, disability, and death. We not only consider a person’s area of expertise when making a referral, but also their location, personality and cost.

Our goal is to be a resource for all of your financial needs. We will continue to reach beyond investment matters in our conversations and will look for opportunities to make a referral when appropriate.

Other

Thanks to your continued referrals and positive performance, Vista’s assets under management grew from \$350 million to \$384 million in 2007. The addition of a new portfolio manager aided our ability to manage this growth and to maintain a high ratio of professionals to clients. Providing the highest level of investment counsel, wealth management, and client service to you—our existing clients continues to be our number one priority.

Our new portfolio manager, Douglas L. Post, joined the Vista team in October. Before coming to Vista, Doug spent the past four years in private equity and mergers and acquisitions at Obsidian Finance and Washington Mutual. Prior to attending business school, Doug worked for five years in management and strategy consulting for CSC Consulting in New York City, focusing on the finance and pharmaceutical industries. Doug earned an MBA from the University of Southern California’s Marshall School of Business and his undergraduate degree from Cornell University. He is excited to be returning to his hometown with his wife, Christie and son, Evan.

We will be sending out 2007 tax information—realized gains/losses and a summary of management fees—in a separate mailing soon. In the meantime, 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.

Below you will see a table of 2007 returns for most of the major asset classes.

Sincerely,

Vista Capital Partners

Comparative Returns:

Index	2007 Returns	Description
S&P 500	+5.5%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
Russell 2000	-1.6%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	+8.6%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Wilshire REIT	-17.6%	<i>Real Estate.</i> Measures the performance of publicly traded real estate equity.
Lehman Bros. Aggregate Bond	+7.0%	<i>Bonds.</i> Represents the performance of the entire U.S. bond market.