



## VIEW FROM VISTA

July 7, 2008

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the 2nd quarter of 2008. Volatility proved, yet again, to be the headline news in the financial markets. The Dow Jones Industrial Average climbed back to near even for the year in May, but ended the quarter near “bear market” territory (a 20% decline from its high). Inflation fears were an often cited cause of market jitters as consumers were confronted with rising energy costs that not only caused pain at the pump, but higher prices for many consumer goods as well.

News about inflation naturally makes clients wonder how their portfolio is positioned to hold up against rising prices. There are three types of investments that have historically kept pace with or exceeded inflation rates: stocks, real estate, and Treasury-Inflation Protected bonds (TIPS). Most Vista clients have exposure to two, if not all three of these investments. We are mindful of a portfolio’s inflation protection because it preserves purchasing power over time, thus allowing you to maintain your standard of living.

The greatest hedge against inflation is stocks. Inflation has averaged 3% per year dating back to 1926, while stocks have averaged an 11% annual return over the same period. Although riskier than bonds or cash, stocks’ 8% real return has been the best defense against the loss of purchasing power. Second, real estate (i.e. a diversified portfolio of REITs) has historically been effective at combating inflation. As inflation increases, landlords can pass on higher costs to tenants by raising rental rates. Furthermore, the market value of a property is largely dependent on the replacement cost; as materials and labor costs increase over time, so does the replacement/market value. TIPS are another valuable tool to hedge against inflation. Unlike most bonds that pay a specified set principal amount at maturity, the principal and coupon payments of an inflation-protected bond are periodically adjusted upward for inflation (downward with deflation) as measured by the consumer price index (CPI).

It is important to note that in the short-run, an unexpected rise in inflation has a negative impact on all asset classes, as we are currently experiencing. However, in the long-run as companies and consumers adjust to higher costs, we expect these three asset classes to provide excellent inflation protection. Purchasing power – and peace of mind – preserved!

*Investment Focus*

The key to successful investing is having a well-thought-out plan which includes the appropriate amount of risk. When we ask a client how much investment risk they are comfortable taking, what we are really asking is how much fluctuation they are willing to endure in order to reach their goals. Naturally, people want less fluctuation (smaller losses) when the market is going down and more fluctuation (larger gains) when the market is going up. But there is no free lunch—risk and return always go hand in hand.

What many investors fail to realize is that the biggest risk they face is outliving their money. Aside from saving more, the best defense against this risk is accepting some fluctuation in order to earn a higher return. In other words, fluctuation is the price you pay to reduce the risk of being unable to do the things you want in life or running out of money.

*Private Wealth Management*

One of the essential elements in retirement planning is determining the level of income which can be safely withdrawn from an investor’s portfolio each year. Everyone’s goal is to be comfortable in retirement. Part of that comfort, however, comes from confidence that future financial needs can be met.

To preserve purchasing power over time, portfolio withdrawal amounts must increase each year to keep pace with inflation. Vista typically recommends setting annual income withdrawals at 4-5% of the portfolio’s beginning balance and adjusting for inflation each year thereafter. This is generally considered to be a prudent withdrawal method that significantly reduces, but does not eliminate, the chance of outliving your money.

How do we arrive at 4-5%? To start, we look at the typical retirement period today. With increased longevity, retirement assets must last 30 years or longer. Over the past 82 years, there have been 53 such thirty-year periods (e.g., 1926-1955, 1927-1956 and so on). By analyzing the outcomes of various withdrawal rates over these 30-year retirement periods, we gain an understanding of the withdrawals a portfolio can support over the long-haul—through good years and bad. The table below details the number of times a 60% stock / 40% bond portfolio was depleted (“Number of Unsuccessful Outcomes”) throughout history:

Portfolio Withdrawals Simulation: 60/40 portfolio from 1926-2007		
Withdrawal Rate as % of Initial Balance	Number of Unsuccessful Outcomes (out of 53)	Success Ratio
4	2	96%
4.5	9	83%
5	22	58%
6	34	36%

Portfolio returns vary greatly year to year. The combination of withdrawals and poor performance early in retirement can increase the likelihood of running out of money. An important part of our job as your investment advisor is to monitor the withdrawal rate and recommend adjustments, if and when needed.

Other

Vista Capital Partners was recently selected by the Portland Business Journal as #62 on its list of the Top 100 Fastest-Growing Private Companies in Oregon for the two years 2006 and 2007. This was the third year in a row we were recognized on the list. We are especially proud of our firm's achievement because we do almost no marketing or advertising. This means our growth is the result of the positive experiences of our clients and their willingness to refer family and friends to Vista. Our growth has allowed us to attract some of the very best investment professionals in our business. It has also afforded us the luxury of having a relatively high minimum (\$1 million) for new clients - this keeps our client-to-professional ratio low. Thank you for helping make Vista successful and for your continued trust, confidence and referrals.

We are also proud to announce that Dougal Williams, one of Vista's senior portfolio managers, has recently become an owner of Vista Capital Partners. Dougal's contribution and passion towards nearly every facet of Vista's business have made him an invaluable member of our team. Providing ownership opportunity ensures depth of management, employee retention and business continuity.

You will notice a few changes to our quarterly letter and report. We have upgraded our performance reports by adding illustrative graphs as well as 3-year and 5-year performance numbers (if applicable). The reports also now include comparable index returns. The three index returns shown are the Wilshire 5000 (broadest index for the U.S. stock market), MSCI EAFE (widely-followed index of international stocks) and the Lehman Aggregate Bond (U.S. investment grade bonds). Since this information is now available within the quarterly report, we will no longer be showing year-to-date index performance at the end of the newsletter. As always, we welcome your calls and e-mails and look forward to our next meeting or conversation.

Sincerely,

Vista Capital Partners