



VIEW FROM VISTA

January 9, 2009

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the 4th quarter of 2008. Stocks finished the year with one of their worst performances on record. The Standard and Poor's 500-stock index fell 38.5%, its third greatest annual loss, behind 1931 and 1937. It was a tough year for small cap and international stocks, as well. The Russell 2000 Small Cap Index dropped 33.8% and the MSCI EAFE International Index lost 45.1%. One of the few bright spots in the gloomy 2008 investment environment was U.S. Treasury Bonds. Intermediate-term Treasury bonds rose 11.4% as investors fled to the safety of government-backed securities.

Last year will be remembered not only for the magnitude of investment losses, but also for the market's extreme volatility. The Dow Jones Industrial Average experienced two of the biggest one-day percentage gains in its 113-year history (ranking in the top six). It also experienced four of the biggest losses (ranking in the top twenty). Investors endured a roller coaster of emotions.

The markets have now suffered two major financial crises in just ten years, beginning with the dot-com collapse in 2000. The ten-year return for the S&P 500 has fallen into negative territory, prompting the financial media to call it the "lost decade for stocks." We believe recent experience emphasizes the importance of diversification and discipline.

Investors who diversified among large cap stocks, small cap stocks, international stocks, real estate investment trusts (REITs) and bonds found gains, not losses, during the "Lost Decade." Returns were well below long-term averages, but positive. While each of these asset classes experienced some bad times over the past ten years, they didn't always occur at the same time. Maintaining the discipline to stick with an asset allocation and rebalance through the market's ups and downs was critical. Adhering to these time-tested investment fundamentals has helped investors in difficult times throughout history. We are confident they will continue to reward investors in the years ahead.

Investment Focus

Question: What percentage of mutual fund managers can consistently pick stocks that outperform the market (as opposed to just being lucky now and then)?

- a) 100% b) 60% c) 40% d) Less than 1%

Answer: If you selected “D,” congratulations—you are commendably up-to-date on the latest investment literature descending from academia’s ivory towers.

Three respected financial economists recently sought to answer the question posed in our little quiz. In so doing, they analyzed over 30 years of performance for more than 2,000 actively-managed mutual funds. The authors applied a statistical test called the False Discovery Rate to strip out errors associated with past studies. By using this method, managers whose past performance was so good it could not possibly be attributed to luck alone (i.e., they were skillful) could be separated from those managers who appeared skillful, but in fact were just plain lucky.

The study, *False Discoveries in Mutual Fund Performance: Measuring Luck in Estimating Alpha’s* (try opening a conversation with that zinger!), found the number of consistently-outperforming funds to be only 0.6 percent. Statistically speaking, this result is indistinguishable from zero. This finding further bolsters the compelling body of evidence which supports Vista’s philosophy of eliminating the high costs of active management as well as the risk of underperforming the market. Index funds are the only rational alternative for almost all investors.

So, back to our little quiz: If you chose “D,” your skill in selecting correct answers is well-deserving of Vista’s highest accolades ... or were you just lucky?

Wealth Management

At Vista, our goal is to be a resource for all of your financial needs. To that end, we would like to update our clients on some changes that impact the broader world of wealth management.

On December 23, 2008, The Worker, Retiree, and Employer Recovery Act of 2008 was signed into law. This new law grants a temporary waiver of the required minimum distribution (RMD) from retirement accounts for the 2009 tax year only. Most importantly, this means our clients who were previously forced to take distributions from their IRAs because they are over 70 ½ or have inherited IRAs get at least a one-year reprieve.

With 2009 upon us, we thought it a good time to revisit IRS rules for qualified retirement plans, 529 college savings plans, and estate tax planning:

<u>Retirement Plans (Maximum Contributions):</u>	<u>2009</u>	<u>2008</u>
401k (age 50+)	\$16,500 (\$22,000)	\$15,500 (\$20,500)
Traditional IRA (age 50+)	\$5,000 (\$6,000)	\$5,000 (\$6,000)
Roth IRA (age 50+)	\$5,000 (\$6,000)	\$5,000 (\$6,000)
Defined Contribution	\$49,000	\$46,000
<u>529 College Savings Plans:</u>	<u>2009</u>	<u>2008</u>
Oregon Tax Deduction – filing jointly	\$4,000	\$4,000
Four Year “Carry Forward” Oregon Tax Deduction	\$16,000	\$16,000
Federal Gift Tax Exclusion – filing jointly (5x annual gift limit)	\$130,000	\$120,000
<u>Estate Planning:</u>	<u>2009</u>	<u>2008</u>
Federal Exemption Amount	\$3.5 million	\$2 million
Federal Estate Tax Above Exemption Amount	45%	45%
Annual Exclusion for Gifting	\$13,000	\$12,000
Oregon Exemption Amount	\$1 million	\$1 million

Other

The bear market of 2008 took a bite out of Vista’s profits and our personal investment portfolios (which are invested right alongside yours), but rest assured Vista remains profitable and strong. We have always managed our business in a similar fashion to our investment portfolios – disciplined and conservative with a long-term perspective and an emphasis on keeping things simple. We are now being rewarded for this.

While many in our industry are now suffering due to their excessive greed, leverage, and/or over-confidence during the good times, Vista is in the enviable position of having 100% employee retention and very close to the same level of client retention. You can expect no let-down in either the quantity or quality of our service.

Thanks largely to your referrals, we are in the midst of perhaps our strongest period of new business growth. This is important as it helps provide career paths for the extremely strong team of professionals we have assembled and allows us to keep our business model intact following one of the worst years in our industry’s history.

We expect to emerge from this extremely difficult economic period well-positioned for the future. For that, we have your trust, loyalty and referrals to thank. So, thank you! As always, we welcome your calls and e-mails and look forward to our next meeting or conversation.

Sincerely,

Vista Capital Partners