VIEW FROM VISTA

April 6, 2009

Dear Valued Client,

The shocking experience of the past 18 months has left many investors asking, "Should we have anticipated the crash?" As you are well aware, Vista's strategy relies neither on attempts to predict the future nor time the market, but rather on a "buy, hold and rebalance" discipline predicated on an appropriate long-term asset allocation.

Our confidence in this strategy is based on the fact that not only has accurately predicting markets proven nearly impossible throughout history, but even for the rare few who have—either through skill or luck—turning such predictions into successful results has been just as elusive.

At least two investment managers can claim they predicted this recent crash. Both Robert Rodriquez, renowned manager of the FPA Capital Fund, and Peter Schiff of Euro Pacific Capital accurately predicted the painful decline of the past 18 months. Did their prescient forecasts pay off for their investors?

As far back as 2005, Robert Rodriguez bemoaned the "investment foolishness" in the market, noted the "financial strains" at Fannie Mae and Freddie Mac and identified critical problems in the real estate market. In June of 2007, Rodriguez delivered a speech to a group of financial analysts in which he outlined how the stock, bond, private-equity and hedge-fund markets were all caught up in "a speculative bubble." In December 2007, Rodriguez was so worried the credit crunch would cause a severe recession, he temporarily halted all stock purchases in his fund. By the end of March 2008 cash had swelled to more than 40% of the stock fund's total assets.

How were FPA Capital Fund shareholders rewarded for Rodriquez' prophetic calls? Unfortunately, not so well. The fund lost 35% in 2008. Probably not the results investors had hoped for from someone who predicted the future.

The financial media's praise of Rodriguez may take second fiddle, however, to the buzz surrounding Peter Schiff, president of brokerage firm Euro Pacific Capital. He gained attention on major television networks in 2006 and 2007 with his bold forecast of over-leveraged American consumers leading the U.S. economy into recession.

In 2007 Schiff authored a book, "Crash Proof: How to Profit from the Coming Economic Collapse," in which he recommended investors pile into gold, commodities and high-dividend paying foreign stocks. As conditions in the U.S. economy and the markets deteriorated, his predictions brought him fame as an economic guru who could help shelter investors from the storm. Nervous investors poured money into accounts with Schiff's firm.

Sadly, for Schiff's investors hoping to profit from his advice, 2008 made mincemeat of their portfolios. Many Euro Pacific clients attested to losing 50% or more, much worse than the 37% drop in the U.S. market. This was due, in part, to Schiff's expectation that the weakening U.S. economy would cause the U.S. dollar to depreciate rapidly, providing an extra boost to shares of international investments. Instead, the dollar advanced, magnifying the already steep losses in the international markets into which Schiff so aggressively steered his clients.

These examples highlight the difficulty of a market timing strategy even for the smartest (or luckiest) of investors and provide a cautionary tale for the rest of us: When it comes to trying to beat the market, even correctly predicting the future may not be enough.

Investment Focus

There is yet more evidence that index funds are the most effective tools for building and maintaining your nest egg. A recent study by Mark Kritzman, M.I.T. instructor and president of Windham Capital Management, provided fresh evidence that after fees and taxes, it is *extremely rare* for an actively managed fund or hedge fund to perform better than a simple index fund.

Mr. Kritzman devised a method to accurately measure the long-term impact of all the expenses associated with investing in a mutual fund or hedge fund. He calculated average returns over a 20-year period for three hypothetical investments: A stock index fund with an annualized return of 10%, an actively managed mutual fund with an annualized return of 13.5% and a hedge fund with an annualized return of 19%. From these rates of return, Kritzman deducted the fees, expenses and tax costs associated with each type of fund to determine the return likely to end up in an investor's pocket.

Mr. Kritzman found that, net of all expenses, including federal and state taxes, the index fund delivered the highest return at 8.5% per year. The actively managed fund would have to outperform the index fund by an average of 4.3% per year just to deliver equal performance, net of all expenses. For the hedge fund, that margin would have to be an astounding 10%.

That kind of outperformance is tough to find. Of the 452 domestic stock funds in Morningstar's database which have been around for 20 years, only 13 outpaced the S&P 500 index by an average of four percentage points per year or more. And these winners are only visible now with the benefit of hindsight. Identifying, in advance, the small minority of funds that will outperform during the next 20 years is like trying to find a needle in a haystack. In his study, Mr. Kritzman wrote, "It is very hard, if not impossible, to justify active management for most taxable investors, if their goal is to grow wealth."

Wealth Management

Mortgage interest rates fell to a record low in the month of March, according to Freddie Mac's survey that dates back to 1971. This decline in rates may have created an opportunity for you to refinance and lower your monthly mortgage payments and/or consolidate other debt—welcome relief during these tough economic times. Refinancing a $400,000, 30-year mortgage from 6% to 5% would save you $250/month.

While interest rates remain volatile, the Federal Reserve's recent efforts to drive down rates resulted in 30-year fixed mortgage rates generally ranging from 4.5% to 5% over the past month. If your current interest rate is above 5.75% and you plan to live in your home for at least another three years, you should review your options to determine if the savings of refinancing outweigh the costs.

You may also want to consider the benefits of a shorter-term loan—going from a 30-year mortgage to a 20- or 15- year mortgage. Another important detail to be aware of is that lender's today charge a much higher rate for loans classified as "jumbo" loans. Jumbo loans are defined as loans in excess of $417,000. If you borrow money above this amount, your interest rate will be about 1% higher.

If you have an interest in refinancing, please give us a call. We can refer you to a highly-qualified, independent mortgage broker who can help you find the best available loan.

Other

On March 18, Vista conducted its first live webinar, a presentation over the internet. We enjoyed this interactive forum which allowed us to communicate with so many of you at once. Turnout for the live event was great and even more have viewed the recorded version of the presentation, available on our website at: http://www.vistacp.com/resources/webinars. We encourage all of you who have not seen it to replay the presentation at your leisure.

Many of you have requested to share the webinar with friends, family, and colleagues. Please feel free to do so. As you know, our business is built on your trust and referrals. Your willingness to direct others to the webinar is excellent validation of our work. Thank you.

We welcome your calls and e-mails and look forward to our next meeting or conversation.
Sincerely,

Vista Capital Partners