



VIEW FROM VISTA

October 6, 2009

Dear Valued Client,

The events of the past year highlight the importance of an investment philosophy based on a disciplined, systematic process rather than an ad hoc approach subject to investor emotion. Who could have predicted on March 9th, with the S&P 500 index down an astounding 56% from its peak and the Wall Street Journal blaring, “Dow 5,000? There’s a Case for It”, that investor sentiment would begin to turn the next day? Apparently very few anticipated the shift, as data shows investors were fleeing stock funds at a record pace and piling into cash.

Investors who abandoned stocks for safer waters, however, missed out on the following post-March 9th returns (through September 30th):

DFA Emerging Markets Small Fund	+113%	DFA International Small Company Fund	+79%
DFA U.S. Small Cap Value Fund	+99%	Vanguard Value Index Fund	+62%
Vanguard REIT Index Fund	+96%	Vanguard Growth Index Fund	+53%

An investment philosophy influenced by the media and daily news reports almost certainly missed out on the best six months in the stock market in over 20 years.

In the midst of the market meltdown, we often heard, “This time is different” and “Why don’t we get out now and wait until things look better?” While these thoughts were perfectly understandable, they ignored an important fact—it’s exactly that overwhelming sense of pessimism and lack of buyers that drive prices to bargain basement levels, sowing the seeds for the next bull market. Another key point easily forgotten in a crisis is that today’s stock and bond prices reflect the collective expectations of what will happen in the economy 6-9 months from now. By the time news headlines are even remotely positive, the train has left the station.

Our investment experience and belief in capitalism kept us disciplined and we adhered to our asset allocation and rebalancing strategy during the markets’ darkest hours. While there are still many obstacles for the economy to overcome (such as unemployment, budget deficits and continued foreclosures), there are now just as many reasons to be optimistic (such as increased consumer confidence, stabilizing home prices and technological innovation and productivity). We are confident our clients will be rewarded for staying true to their investment plan during these challenging times.

Investment Focus

For decades, international stocks have offered powerful diversification benefits to investors. Historically, a helping of international stocks has not only reduced the fluctuation of a portfolio, but increased its long-term return as well. Despite this fact, most investors—both institutional and individual—still commit relatively small portions of their portfolios to investments abroad. According to various market surveys, the average investor holds just north of 10% of their portfolio in foreign stocks.

Vista has long been a proponent of international diversification. A typical Vista client now has approximately 30% of their stock portfolio dedicated to overseas investments. Our research, as well as that from the country's leading academics, suggests a 30% allocation represents the optimal long-term mix based on expected returns, risk, and diversification benefits.

There are risks, of course, to investing in all international markets. Trading costs and fund management fees tend to be higher than U.S. investments. Our international investments, primarily via Dimensional Fund Advisors (DFA) funds, are made in local currencies and not hedged against the U.S. dollar. Currency fluctuations thus impact returns, both positively and negatively.

Our allocation to international stocks is not just larger than most investors'; it differs greatly in structure. The stocks of large companies in developed economies (think: BP, Nestle and Toyota) get most of the attention. International small company and value stocks, particularly those in emerging markets, tend to be overlooked. These asset classes represent an enormous opportunity that most investors miss. In a Vista portfolio, half of our international allocation is dedicated to small company stocks and 30% to emerging markets. These companies do more of their business in their local markets, so they are less influenced by the economic currents which affect larger U.S. and developed international companies. As a result, their business and stock performance is less "correlated" with the returns of more widely-held stocks. Since small companies, particularly those in emerging markets, are riskier, investors can also expect to be compensated via higher returns.

Wealth Management

The Federal Reserve's low interest rate target (currently 0% to 0.25%) is intended to stimulate the economy. For savers, however, the resulting low returns on cash holdings are pretty depressing. According to Crane Data LLC, over three quarters of all taxable money-market funds are currently paying 0.1% per year or less. Those are slim pickings for the \$1.3 trillion in assets held there.

The current low interest rate environment accentuates the long-term performance drag caused by cash. Now more than ever, it is important that investors evaluate whether they are holding an appropriate amount of cash. In determining how much cash to hold, investors should consider the following potential sources of cash in the event of a "rainy day":

- Selling investments in their portfolio
- Tapping home equity through a line of credit
- Borrowing against their investment account (margin loan)
- Establishing a personal line of credit
- Borrowing from the cash value of their life insurance

Investors should also consider where to hold their emergency cash. Credit unions and community banks are currently offering relatively high rates to attract deposits. According to Bankrate.com, it is still possible to find rates in the 2% range. That might not seem like much until you consider it is twenty times greater than 0.1%.

For those concerned with the safety of deposits, the Federal Deposit Insurance Corporation (FDIC) raised coverage from \$100,000 to \$250,000 through 2013. The National Credit Union Association (NCUA) also insures deposits up to \$250,000 through 2013. It is even possible to access higher levels of FDIC insurance through a single bank, if it participates in CDARS (Certificate of Deposit Account Registry Service). Balances which exceed the insurance limit are simply spread among CDs issued by other banks in the CDARS network, so that the entire amount is covered by FDIC.

Other

We hope to see you at our client appreciation event on November 18th in the Gerding Theater at the Armory (128 NW 11th Avenue). The evening commences at 5:00pm with an interview of one of Oregon's most respected CEOs, Tim Boyle of Columbia Sportswear. Festivities will continue with a reception including cocktails and hors d'oeuvres from 6:00pm-8:00pm.

On a separate note, Vista Capital Partners was recently selected by the Portland Business Journal as #17 on its list of most philanthropic small companies in Oregon. We are proud of this honor as it reflects our dedication to giving back to the community. We take our community involvement seriously and hope to lead by example.

Thank you for being a client. We welcome your calls and e-mails and look forward to our next meeting or conversation.

Sincerely,

Vista Capital Partners