



VIEW FROM VISTA

April 10, 2007

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the first quarter of 2007. The stock market took investors on a roller coaster ride during the first quarter, reminding them of the market's capacity for sudden volatility. The Dow climbed to record heights in mid-February only to plunge 416 points in a single day at the end of the month, the largest percentage decline (-3.3%) in almost four years. The blue-chip average did eventually rebound from its low, but finished the quarter down 0.9%. Small cap and international stocks also experienced large price swings, but had better ending results. The Russell 2000 small cap index finished the quarter up 1.9% and the average international stock fund increased 3.5%. The bond market received more media attention than usual as "sub-prime mortgage loans" became a hot topic. Despite fears over these riskier issues, the average U.S. taxable bond fund rose 1.7% during the period.

Some of our observations on the financial markets:

- "Subprime" made a sudden leap into investors' lexicon early this year when it became obvious that many mortgage lenders, banks, brokers and investors had badly underestimated the risks of loans to the least-creditworthy borrowers. *With mortgage defaults on the rise and credit standards tightening, housing could be in for a double whammy – more homes going back on the market and fewer eligible buyers.*
- Funds' taxable capital-gains distributions are on the rise, eating away at the returns of investors who hold shares in taxable accounts. Last year's stock and bond-fund distributions totaled nearly \$260 billion, the highest since \$325.8 billion was paid out in 2000. After the 2000-2002 bear market, the average U.S. stock fund carried net capital losses equal to 56% of assets. That's now down to 2%, meaning many funds have used up stockpiled losses. *The good news – performance the past 4 years has been strong, especially for small cap and international funds. The bad news - after a brief hiatus, the performance penalty for high- turnover funds is going back up.*
- Rising incomes and a sturdy labor market kept consumers spending on everything from socks to restaurant meals in February, helping offset the housing slump. Business spending, on the other hand, has been weak. *Consumers continue to spend what they earn and then some, while companies, flush with cash from record profits, keep a lid on corporate coffers.*
- According to investment researcher Strategic Insight, investors added some \$110 billion to stock and bond mutual funds in the opening two months of 2007, a record for any January-February period. *Bond funds garnered almost a third of those inflows, the highest level since 2004. It's worth noting that bond funds' popularity increased despite their relatively low recent returns. This may be a sign that investors' appetite for risk is starting to wane.*

Investment Focus

The old adage, “It’s not what you make, but what you keep”, is a favorite around our office. We are keenly aware it is not the gross return we earn on paper that matters, but the after-tax return that ends up in our clients’ pockets. High after-tax returns for Vista’s clients are the result of the following strategies we employ:

1. Use of index funds: Index funds are more tax-efficient than actively managed funds because they have lower turnover (trading). The trading associated with active management leads to higher taxable gains, some of which are short-term in nature and subject to the highest tax rates. Index funds trade much less frequently and thereby distribute few, if any, capital gains. With taxes eating away 1.5% to 2.5% per year from the gross return of the average actively managed fund, utilizing index funds can lead to a sizable after-tax advantage.
2. Asset location: This refers to placing the most highly taxed assets in IRAs and 401(k)s while holding more tax-efficient assets in taxable accounts. Bonds and REITs pay out income which can be taxed at rates of up to 35%, so they are held in tax-deferred accounts whenever possible. Equities, whose capital gains and dividends are taxed at a federal rate of 15%, are held in taxable accounts.
3. Preference for municipal bonds for high-income clients: When bonds must be owned in taxable accounts, it often makes sense to favor municipal bonds. Free from Federal, State and Local taxes, municipal bonds can deliver higher tax-equivalent returns than taxable bonds for investors in the highest tax brackets.
4. Low portfolio turnover: Our commitment to a client’s long-term asset allocation eliminates the need to trade in an attempt to time the market. The buy-and-hold nature of our approach reduces both transaction costs and the tax burden associated with excessive trading.
5. Tax loss harvesting: In taxable accounts, positions that drop below their original cost can be sold to “harvest” the losses. These losses may be used to offset gains realized elsewhere in the portfolio, reducing the ultimate tax bill.

Private Wealth Management

We find many investors like to hold considerable cash positions as a sort of sleep-at-night security blanket. Experts often advocate stockpiling an emergency cash reserve equal to six months of living expenses or income. At Vista, however, we believe it is unwise to blindly follow this conventional wisdom. If you have other resources to draw from, a big stash of cash may be unnecessary. Investors often fail to recognize their other potential sources of cash. If you find yourself in a financial pinch, you might:

- Sell investments in your Vista portfolio
- Tap your home equity via a line of credit
- Borrow against your investment account via a margin loan
- Establish a personal line of credit
- Borrow from your cash value life insurance

We generally recommend clients minimize cash to avoid the significant, long-term penalty imposed for investing in

cash instead of a diversified investment portfolio. Historically, cash has paid investors only slightly more than inflation, averaging just under four percent. If left untouched, \$50,000 invested in cash for 30 years at four percent annualized would grow to \$162,000 (gross of taxes). The same amount invested in a portfolio averaging eight percent annualized over 30 years would grow to \$503,000. That's a \$350,000 security blanket – a high cost indeed for something that may never be needed.

While each investor's personal situation and appetite for risk varies, our experience tells us most investors rarely, if ever, utilize their emergency cash. If meaningful liquidity is needed, the timing and amount typically allows for an orderly selling of investments within their portfolio. If the timing is not good, i.e. a large amount of cash is needed when the market is down considerably, one of the previously mentioned sources of cash can be temporarily utilized.

Other

The Portland Business Journal recently recognized Doug Johanson, one of Vista's founding partners, with its 2007 "Forty under 40" award. This award is given to forty leading business professionals under the age of 40 based on their business accomplishment, professional recognition and community involvement. All of us who know Doug can attest to the positive impact he has made on the local community.

You may have noticed we included a summary of our 2006 management fees along with your realized gain/loss report in January. We'd like to remind you that our fees on your taxable accounts may be tax deductible. We recommend you consult a tax advisor regarding its applicability to your specific situation. Management fees deducted directly from an IRA are not tax deductible as this is a tax-free IRA withdrawal – essentially the same as a deductible fee paid on your taxable account.

Below is a summary of year-to-date market returns. We welcome your calls and e-mails and look forward to our next conversation. Thank you for your referrals and for being a client.

Sincerely,

Vista Capital Partners

Comparative Returns:

| Index | 2007 Returns | Description |
|-----------------------------|--------------|--|
| S&P 500 | +0.64% | <i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy. |
| Russell 2000 | +1.95% | <i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies. |
| MSCI EAFE | +4.08% | <i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S. |
| Wilshire REIT | +3.74% | <i>Real Estate.</i> Measures the performance of publicly traded real estate equity. |
| Lehman Bros. Aggregate Bond | +1.50% | <i>Bonds.</i> Represents the performance of the entire US bond market. |