



VIEW FROM VISTA

July 6, 2007

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the second quarter of 2007. Equity markets posted healthy gains for the quarter as they climbed into record territory. The Dow Jones surpassed the 13,000 mark for a 9.1% gain, while the S&P 500 topped its March 2000 record high to close the quarter up 6.3%. The Russell 2000 small cap index delivered 4.4% while international indices posted gains of 5.3% (developed markets) and 14% (emerging markets). With fears over rising inflation still lingering, interest rates rose and the Lehman Brothers Aggregate Bond index fell slightly, ending the quarter down -0.4%. The weakest asset class was real estate, which after four years of strong growth, gave back -9.4% as measured by the Wilshire REIT index.

Some of our observations on the financial markets:

- Fueled by low interest rates, a flood of investor capital and relatively attractive equity valuations, private equity activity continued its torrid clip with 2007 deals already 300% above levels seen a year ago. *It's becoming increasingly hard to believe this frenzy can continue. As the founder of prominent private equity firm Carlyle Group recently said, "There hasn't been a deal failure in five years..[and the reality is]..that some deals will fail. Greed has taken over. Nobody fears failure."*
- During the two-year period that ended in May, the correlation between U.S. and other developed markets was 0.55, a significant decline from the prior two years when they practically moved in lockstep, at 0.93. (Correlation is measured on a scale from 1 to minus 1; A correlation of "1" reveals markets are moving in perfect unison and "minus 1" shows movements in the exact opposite direction.) *This is good news for investors in international stocks, as it signifies a reemergence of the primary motivation behind investing abroad: diversification.*
- On April 25th the Dow Jones Industrial Average broke through 13,000 for the first time in history and went on to finish the quarter up 9% for the year. This is indicative of the strong returns available to investors in stocks this year. *This strong performance has befuddled chief strategists and analysts, who at the beginning of the year lamented over the cadre of forces sure to stunt the market's gains in 2007: gloomy predictions of corporate profit growth, inflation fears, potential for rising interest rates and 2008's political uncertainty. Just goes to show, you never know.*
- So far in 2007, a record 33% of new high-yield lending has been to "particularly credit-challenged borrowers." Just 0.8% of high yield bonds defaulted last year, far below the average of 3.4% per year since 1970. *Strong economies and corporate profit growth around the world have pushed defaults to an all-time low. Combined with easy access to credit, low default rates seem to have lulled both lenders and investors alike into believing the risks of junk-bonds no longer exist. Stay tuned.*

Investment Focus

While we favor an index approach to investing in the capital markets, Vista's strategy is far from passive. Drawing from the work of a number of highly-respected academics, we construct diversified portfolios that target statistically significant sources of investment return. Our goal is to engineer portfolios that maximize return for a chosen level of risk.

What are statistically significant sources of return? Professors Eugene Fama (University of Chicago) and Kenneth French (Dartmouth College) have researched equity returns over the past 81 years and found that investors have been consistently rewarded for favoring value stocks over growth stocks and small company stocks over large company stocks. In both cases, the explanation for the higher return is that it represents compensation for assuming greater investment risk. The "size and value effect", as it is known, holds true across U.S., international and emerging markets.

If risk and return go hand in hand, how do you maximize one while minimizing the other? Once again we look to leading academics for an answer. Harry Markowitz and William Sharpe shared the Nobel Prize in 1990 (along with Merton Miller) for demonstrating that a portfolio's expected return can be increased while reducing its expected risk through the addition of non-correlated asset classes. Correlation measures how the returns of two assets move relative to each other.

How does Vista apply this research to build smarter portfolios? We start by introducing a value bias into a portfolio's U.S. large cap and small cap allocations. We overweight small cap and add "micro" cap stocks, the smallest 4% of all publicly-traded companies in the U.S. Research shows these "smaller" small cap stocks tend to outperform their "larger" small cap peers over long time periods. To provide global economic diversification, we add international stocks to the portfolio. Here we also incorporate a bias toward value and small cap stocks, in both developed and emerging markets. While emerging market stocks are inherently risky on a stand-alone basis, their low correlation to traditional U.S. equities actually lowers total portfolio risk, while enhancing returns. Next we add domestic and international real estate via publicly traded REITs, the fundamental characteristics of which provide unique diversifying power to the portfolio. Finally, we add bonds to further dampen portfolio volatility and provide "insurance" for those times when equity markets are in a major decline.

Private Wealth Management

Thanks to state-sponsored programs known as 529 college-savings plans, saving for college has never been easier. A 529 college-savings plan is an investment account that receives preferential tax treatment. Assets are allowed to grow and eventually be withdrawn tax-free, if they are used for qualified higher education expenses. This is significant when you consider the growth potential over 18 years.

Questions arise when parents or grandparents consider opening a 529 plan. Most often, parents wonder if the beneficiary must attend college in the state where they open a 529 plan. The answer is no. Anyone can open a 529 plan in any state, and the beneficiary can attend any accredited college. What happens if their child doesn't go to college? If this occurs, the account owner can change the beneficiary to another family member (broadly defined) and thus avoid a penalty. If the account owner uses the money for non-educational purposes, he or she must pay taxes on the earnings, plus a 10% penalty. The owner can alter the investment mix or move to another state's plan if necessary.

Vista has researched the 529 plan universe and has compiled a list of our five favorite plans. We screen for well-regarded managers (e.g. Vanguard, Fidelity, TIAA-CREFF), low fees, and superior investment diversification. Vista also prefers plans that offer age-based investing. Age-based investing allows the account owner to pick a savings track (e.g. conservative, moderate, aggressive) which automatically adjusts the asset allocation as the beneficiary ages. Please contact us if you are interested in more information.

Other

Vista and its employees take pride in being a locally-owned company that works with clients who care about our community and our environment. With that in mind, we recently set out to improve our business practices to ensure we are minimizing our environmental impact. We will do this through energy conservation, support for clean energy, waste reduction, incentive for mass transit, selection of environmentally friendly vendors and products, and other responsible measures. Please visit our web site for additional details on our “Vista Green” initiative.

At Vista we believe low-cost, tax-efficient index funds are the optimal building blocks for long-term investment success...and we're not alone. We recently compiled a list of quotes from some of the most highly-regarded minds in finance expressing a similar opinion. We put the best of those quotes on our web site under “What the Experts Say” – we thought you might enjoy reading them.

Below you will see a table of year-to-date 2007 returns for most of the major asset classes. We welcome your calls and e-mails and look forward to our next account review or conversation. Thank you for your referrals and for being a client.

Sincerely,

Vista Capital Partners

Comparative Returns:

Index	2007 Returns	Description
S&P 500	+7.0%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
Russell 2000	+6.5%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	+9.1%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Wilshire REIT	-6.0%	<i>Real Estate.</i> Measures the performance of publicly traded real estate equity.
Lehman Bros. Aggregate Bond	+1.2%	<i>Bonds.</i> Represents the performance of the entire US bond market.