



VIEW FROM VISTA

October 5, 2007

Dear Valued Client,

Enclosed is your Quarterly Report from Vista Capital Partners for the third quarter of 2007. And what a volatile quarter it was. The Dow Jones hit a new record high in July, suffered a drop of -10%, and then recovered to end the period up +3.6%. Fears surrounding subprime mortgages and the slowing housing market were at the center of it all. Conditions grew serious enough to prompt the Fed to lower short term interest rates by half a percent. This helped the Lehman Aggregate bond index finish the quarter with a +2.6% gain.

Some of our observations on the financial markets:

- Parts of U.S. credit markets froze in July and August as problems with subprime mortgages, loans to less credit-worthy borrowers, spread to the broader market. Jittery investors showed a sudden reluctance to sink money into riskier bonds. *How did these mortgage and home-building companies really think things would end after going so far as approving "NINJA" loans – No Income, No Job, No Assets? The last few years started reminding us of a ponzi-type scheme in which some poor group of investors were going to be left holding the bag. Well, now we know who those investors are – and they are not Vista's clients.*
- According to the National Association of Realtors, sales of existing homes tumbled 4.3% in August to the slowest pace in five years. The number of homes for sale is enough to satisfy 10 months of demand. Two years ago the figure was below five months. *Finally, a good time to be a home buyer instead of a seller.*
- The dollar index, which measures the dollar against a basket of six major currencies, fell to an all-time low during September. *Vista has always selected international funds that do not hedge their foreign currency exposure. Our clients are benefiting from the dollar's decline via turbo-charged performance as these funds convert their foreign currencies to an increasing amount of U.S. dollars.*

Investment Focus

Although not always entirely understood, bonds are a meaningful component of many client portfolios. After prolonged periods of generous stock market returns, bondholders can be left scratching their heads: "Remind me, again, why I own bonds?" Now in our fifth consecutive year of stock market gains, we thought this would be a good time to remind you why bonds are in your portfolio. We use bonds in client portfolios primarily for capital preservation and to reduce portfolio volatility. Up until recently, we have constructed diversified bond portfolios using a combination of U.S. Treasury, corporate, high-yield, and international and

emerging market bonds. While the primary emphasis has always been on bonds of the highest quality, we have decided to increase this emphasis further, with the goal of even better preserving your assets during times of severe financial market distress. For clients in high tax brackets, we will continue to use tax-free municipal bonds where appropriate. The very low default rates on municipal bonds give them characteristics similar to U.S. Treasury obligations.

U.S. Treasury bonds provide an unparalleled level of protection. During the Great Depression, from 1929 to 1932, \$1 invested in small company stocks turned into ten cents. Treasury bonds not only preserved principal but delivered a cumulative 20% return.

As a result, in your next account review (if we haven't done so already) we will have a conversation about the possibility of: 1) increasing the quality of your bond portfolio, 2) slightly reducing your bond allocation and 3) moving the proceeds into your stock allocation—the superior long-term returns of which will offset the lower returns generated by higher-quality bonds. The net result:

- No change in the portfolio's long-term expected return
- No change in the portfolio's expected volatility
- Better protection in the event of financial market crises

We believe this is simply a smarter combination of asset classes.

Private Wealth Management

Risk management plays a vital role in a comprehensive wealth management plan. Accordingly, having the right insurance in place is crucial for the protection and preservation of income and assets when events occur that would otherwise be financially devastating. Below are some of the most important policies to consider for managing risk:

- **Life** – When combined with other sources of income, it should replace income and benefits (e.g. healthcare) lost as a result of death. Low-cost term insurance is appropriate for most situations, with whole life typically reserved for more complex estate plans.
- **Disability** – Nearly half of all adults will experience a long-term disability by age 65. Consider all available sources of income if disabled then subtract living expenses and savings goals to determine monthly income shortfall.
- **Long-Term Care** – Provides assistance with activities of daily living, whether due to old age, injury, or illness. LTC may be appropriate for those whose income exceeds Medicaid limits, but whose assets are insufficient to pay for care out-of-pocket.
- **Home/Auto** – A homeowners policy should be reviewed periodically to ensure it covers rebuilding at current construction costs. Earthquake and flood insurance are purchased separately. Raising home and auto deductibles to \$1,000 or higher can save up to 25 percent.
- **Umbrella** – Covers personal liability and extends coverage of home/auto policies. Consider how much you have to lose if sued, plus the cost of legal defense for a good estimate of your risk exposure.

Other

We look forward to seeing those of you who will be attending our Client Appreciation Event on October 17th at the RiverPlace Hotel. In the meantime, 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.

Below you will see a table of year-to-date 2007 returns for most of the major asset classes.

Sincerely,

Vista Capital Partners

Comparative Returns:

Index	2007 Returns	Description
S&P 500	+7.6%	<i>Large Cap Stocks.</i> 500 of the largest U.S. companies in all sectors of the economy.
Russell 2000	+2.3%	<i>Small Cap Stocks.</i> A broadly diversified index consisting of about 2000 small companies.
MSCI EAFE	+10.9%	<i>International Stocks.</i> An aggregate of 21 major country indexes, excluding the U.S.
Wilshire REIT	-4.6%	<i>Real Estate.</i> Measures the performance of publicly traded real estate equity.
Lehman Bros. Aggregate Bond	+3.8%	<i>Bonds.</i> Represents the performance of the entire US bond market.