

# 2007 Annual Report

## LETTER FROM THE PRESIDENT

Hello,

In past letters, I've talked about our goals, our plans for growth and how building a team of experts would help us deliver exceptional service. As the year closes, I'm proud to say we've made great progress.

How did I come to this, dare I say, bold conclusion? You told us.

We recently completed our first client survey, in which we asked our investment and retirement plan clients, who have a choice of where to put their money, to give us their feedback across a variety of categories. And the results speak for themselves.

- Our investment performance meets or exceeds expectations of 92% of these clients. Our investment expertise is what clients reported they valued most.
- Over half of our respondents reported that our investment results are better than the results they've had with other advisors they've worked with in the past. (The rest said we were equally as good.)
- 60% of our clients said our service was better than other advisors they've worked with, and 38% said we were equally as good.
- Over 80% of respondents said they would be willing to recommend us to friends or family.

How did we get here? By listening to clients.

We carefully listen to clients every time we interact. We've strived to meet the needs and exceed the expectations. We continually research and explore to make sure we have the top products and services for your situation. We've enhanced our statements and how we report to you.

We've worked very hard over the past few years to get us to this point. And we're not about to stop.

### HOW ARE WE DOING?

Since our team came together just a few years ago, we've more than doubled our assets, and we continue along this growth pattern. Our investment management business is now bigger than our trust business. At the end of every year, I review how we measure up across three categories:

**Performance.** Despite a roller coaster ride in the markets culminating with the mortgage bubble bursting in the fourth quarter, we're happy to report that our Select Portfolios have continued to outperform their benchmarks. By consistently deploying our investment discipline during these turbulent markets, we were able to help clients avoid making emotional mistakes when managing their money.

**Objective Advice.** Our clients' responses in the survey noted that unbiased advice and the depth of our expertise were important aspects of their relationship with us. Several clients benefited from our efforts this year to market their real estate for prices greater than the initial appraisals. With over 25 years of experience managing agribusiness properties, commercial and residential real estate, we're extremely fortunate to have Mike Macnab lead these activities. In our fall client meetings, we focused on taxes and suggested ways to minimize their 2007 tax bills.

**Offerings.** We added a separately managed equity program, *Structured Leaders Portfolio*, to our investment offerings in 2007 (see page 2). The Managed Retirement Plan service was launched in the fourth quarter, enabling us to provide 401(k) services to bank clients using our Select Portfolios as the core investment offering.

### WHERE ARE WE GOING?

Our aspirations are to continually be better. We'll continue to build what I like to call "high-touch" relationships with all our clients. We'll keep augmenting our products and services. This past year, we made good progress with our new accounting system and introduced a new statement format that better suits the needs of our clients. Clients can look forward to greatly enhanced tax reporting in 2008.

People will always make us who we are. We added two more terrific relationship managers – Tim Whalen and Liz Clarke (see page 2). I'm extremely confident that our core team of experts can meet your every need. We'll continue to add quality leaders who listen and meet the needs of our clients.

As always, feel free to get in touch with me personally at 503-279-3911 or by email at MicoS@wcb.com, or contact any one of us with comments, suggestions or questions. We're always here for you.



Sandra C. Mico  
President

**TWO RELATIONSHIP MANAGERS JOIN OUR TEAM**

**Experience Counts** | We're excited to add two exceptional relationship managers who are well known for their pro-active attention to clients.

Liz Clarke strengthens our Personal Trust team as Vice President and Trust Officer. Born in Liverpool, England, Liz was formerly a trust officer with Union Bank of California and has lived in Oregon for the last decade.

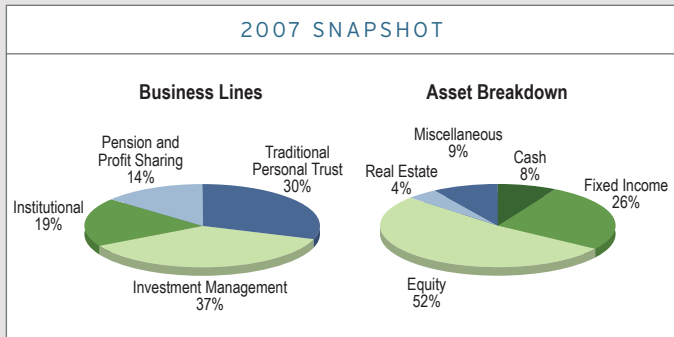
"My day-to-day duties are trust administration. It gives me great satisfaction to work on our clients' objectives, helping them achieve what they set out to do for their beneficiaries."

**"When clients are happy, I'm happy. Making sure they are taken care of is my main mission."**

Tim Whalen serves as Manager of Asset Management and Retirement Services, having held a similar position with Columbia Management Company's Retirement Plan group.

"When clients are happy, I'm happy. I enjoy being a resource to clients and understanding how we can achieve and meet

their goals," said Tim, an upstate New York native who's lived in Portland for the last 11 years. "I like having a direct impact on clients. Making sure they are taken care of is my main mission."



**MANAGER SCORECARD**

Our manager selection process will continue to help us deliver superior results. Every quarter we reevaluate all mutual fund managers to make sure that they're generating superior results within their mandates. This is especially critical when narrow trading ranges make it very difficult to make up ground lost due to poor discipline or bad stock picking.

Our Criteria	Benchmark	WCT Results
Rank vs. Peers 3 Yrs	Upper 33%	Upper 21%
Rank vs. Peers 5 Yrs	Upper 33%	Upper 12%
Rank vs. Peers Bear Mkt	Upper 50%	Upper 48%
Average Fund Expense	1.62%	0.75%
Management Tenure	3 Yrs Minimum	8.2 Yrs

**INTRODUCING STRUCTURED LEADERS PORTFOLIO**

**The Markets Moving Forward** | As wealth managers and market strategists we continually research and mine data that impact the markets to help us design and manage portfolios.

Stock investors over the past 25 years have benefited from the trend toward lower interest rates. The markets have become dependent on these lower rates to drive gross domestic product growth and stock market returns. We believe that the maturity of our economy, trade and government deficits, and future government obligations will contribute to higher interest rates in the future. Falling interest rates, the driving force behind the bull market of the last 25 years, will likely be absent moving forward. Without the interest rate catalyst, the U.S. markets could see a protracted period of low investment returns. In a low return environment, investment expenses, trading costs, fees and asset allocation become more critical than ever.

**Structured Leaders Management Style** is designed for investing over the next 25 years, focusing on superior after-tax returns. Managed by Chris Magana, *Structured Leaders* follows the disciplined approach to investment management that has made us so successful with mutual funds, except now we have more operating expenses control and tax planning flexibility. Listed below are a few highlights of the strategy:

- Tax free bonds for income
- Individual, high dividend yielding stocks that qualify for favorable tax treatment
- Asset allocation through ETFs with rock bottom expenses and limited taxable capital distributions
- Low turnover to minimize taxable events
- Tax planning through tax gain/loss harvesting

Superior after-tax returns are achieved by keeping expenses and costs low, minimizing short-term taxable capital distributions, utilizing tax free bonds and qualified dividends for income and diversification.

**STRUCTURED LEADERS PORTFOLIO PERFORMANCE  
DECEMBER 31, 2007**

	<b>3 Month</b>	<b>1 Year</b>
Structured Leaders	-3.80	10.89*
MS U.S. Market Benchmark	-3.33	5.49
+/-Benchmark	-0.47	5.40

\* Projected

# THE BOTTOM LINE

YEAR END REVIEW

DECEMBER 31, 2007

## AND SO IT GOES

Someone once observed that we can explain the market with one simple dynamic: the pendulum swing between fear and greed. That describes 2007, at least, as the unbridled greed in the mortgage and mortgage derivative factories in 2006 yielded to a stampede from the asset class in 2007. Like all investment bubbles, real estate was premised on the certainty that prices would continue to rise at what now are recognized as unsustainable rates. Then, in a tragic daisy chain of events beginning in the first quarter, subprime loans and derivative products triggered massive losses throughout the industry and unemployment, even in the walnut and cherry paneled halls of the executive suites. The prospect of recession loomed at years end. As Kurt Vonnegut once wrote, "So it goes."

So it goes, indeed. All investment bubbles are tragic, not only because of their economic and human impact, but because their causes lie in those two most fundamental of human frailties – fear and greed. The unbridled greed of the largest investment and banking houses permitted the creation of mortgage-related pools that were the equivalent of nuclear waste. With the lure of massive fees as a reward for going along, the rating agencies fell for the math that somehow demonstrated that pools of risky mortgages could somehow be turned into a silk purse with an AAA rating. We learned once again that  $2 + 2$  is always 4, and that even a PhD in math can't turn it into a 10. With the magic of the SIV, the financial behemoths that owned the securities didn't even have to hold capital against them. All they needed to do was collect the income.

Then, the pendulum swung to fear. The SIVs began to crumble, just like the famous Nigerian barge partnerships at Enron several years ago. The major banking houses recorded staggering losses. At year's end, write-downs amounted to nearly \$100 billion, and some analysts predict more in the first quarter. Credit dried up almost completely, taking the housing industry with it. Corporate borrowing costs skyrocketed as the commercial paper market dried up. The safest of the safe, municipal credit, began to sweat as their tax bases contracted and bond insurance companies teetered on the edge of default.

As the year ended, the stock market sold off again, as real estate-fueled consumer spending contracted. With consumer spending down, earnings reports took a nasty turn, and virtually every economic indicator pointed toward a continuation of the ugliness into 2008. Even the prospect of a presidential election, usually a plus for the markets, failed to stimulate even the slightest bit of optimism. In the closing sessions of the year, buyers had all but disappeared, and the sellers laid claim to the trading floors.

Much of the cash proceeds went into bonds and international equities. These asset classes now entice investors with one-year returns that appeared to be quite favorable to domestic equities. Those buying bonds or emerging equities as a safe harbor after the sale of their bank stocks might actually have been edging even further out on the limb than before.

## OUR VIEW

As in all other bubbles, the correction will be deeper than predicted, the recovery slower than predicted, and the investing landscape in the aftermath changed forever. Human frailty unfortunately, will remain. So it goes. Fortunately, our job is not to decide whether any of this is good or bad (although that would be pretty easy at this juncture), but to figure out how to make some money for our clients. We see several important trends guiding the markets in the coming years:

**Lower Average Returns** | Beginning in the mid-1980s, interest rates entered into a secular decline from the high teens all the way to inflation-adjusted negative interest rates at the bottom of the last recession. Rates have risen from those lows, but not by much. Stock prices thrive on falling interest rates. With rates near recent lows, but actually at their historic averages, stock prices will have difficulty finding any kind of tailwind and will have to rely on earnings. We see domestic equity returns in the high single digits or perhaps the low teens in the coming years, as opposed to year after year of double digits ala the 1990s.

**Higher Tax Burdens** | The probability of higher taxes in the coming decade is greater than the probability of tax reduction. Our creditors, China, Japan, etc., will begin to insist that we get our financial house in order. Since we have had difficulty cutting back our consumption via savings, we will likely do so by taxation.

**Rising Inflation** | Worldwide demand for commodities, coupled with a new round of Fed easing, will weaken the dollar and raise our inflation rate. The Fed will be hard pressed to avoid a 1970s-like scenario in which the economy stagnates in the face of spiraling prices.

The core of our investment philosophy is to view the landscape through a value orientation. We believe that the landscape described above lends itself to that orientation. "Value" companies have several characteristics that we see as components to success in the coming years. Dividends, while always important, will become even more so. Dividends are an extremely important factor from the risk management perspective, too. Dividend-paying stocks are simply less volatile. Tax efficiency will also play an important role in our strategy. Our mutual fund portfolios feature low turnover, a strong indicator of favorable tax treatment at year end. Our *Structured Leaders* strategy offers the advantage of precise tax management and in 2007 generated net capital gains of virtually zero.

Emerging equities have been an excellent way to exploit the rise in commodities prices in recent years. And yet, after several years of returns in the 30s, 40s, and 50s, someone is going to wake up and ask the question, "Who sold me this Cambodian Dot Com stock?" We believe that the emerging equities boom, and perhaps even the expansion of equity prices in the Eurozone and Japan, will begin to come to an end in favor of U.S. equity. We won't necessarily call it yet, but we expect to see flows from international equities to domestic equities at some point in the near future. Our strategy will address the rise in commodities prices without getting too far out on the international limb.

In other words, in dicey times like these, we think that the fundamentals represent the safest play.

