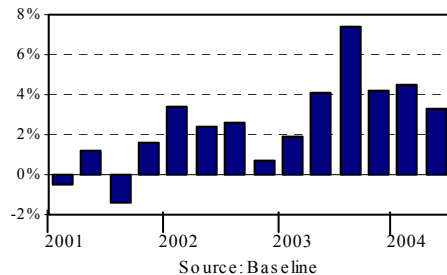


Third Quarter 2004 Highlights

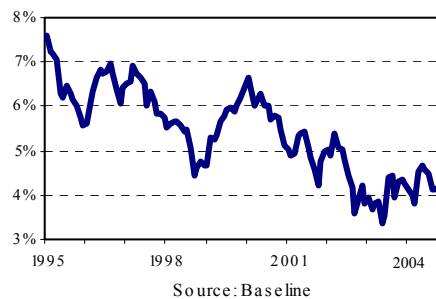
October 2004
Issue 20

Real Gross Domestic Product, % change



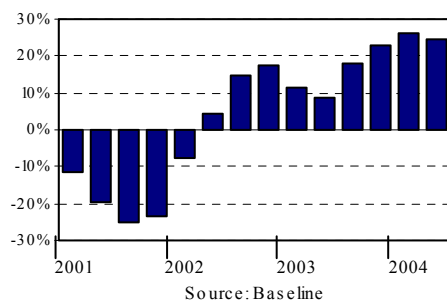
The Economy Continues To Grow

Ten Year Treasury Bond Interest Rate



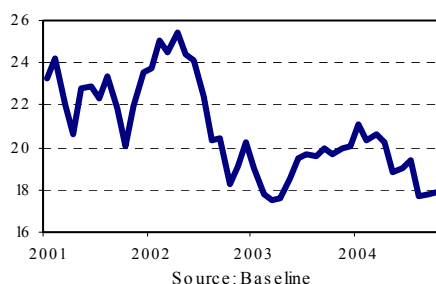
Rates Are Still Low

Corporate Profits, EPS %change

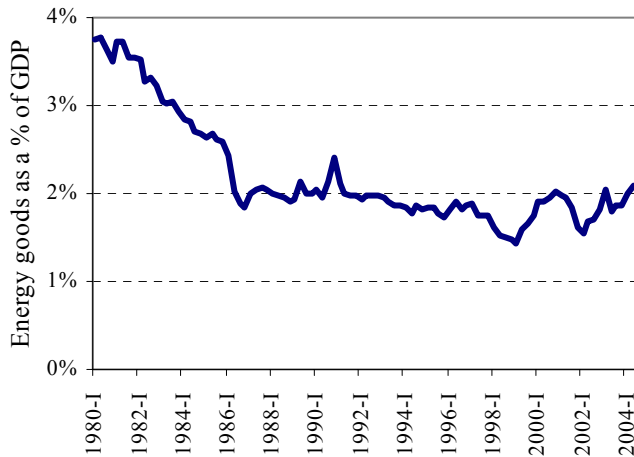


Earnings Are Up

S&P 500 P/E Ratio (Trailing)



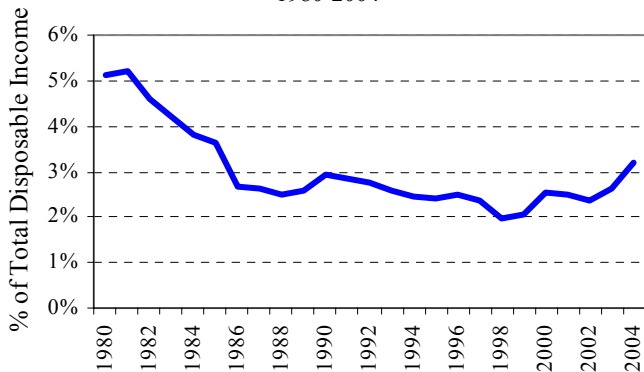
Energy goods as a % of GDP, 1980-2004



“Oil is less important to the economy.”

Expenditures on Gasoline as % of Total Disposable

Income
1980-2004

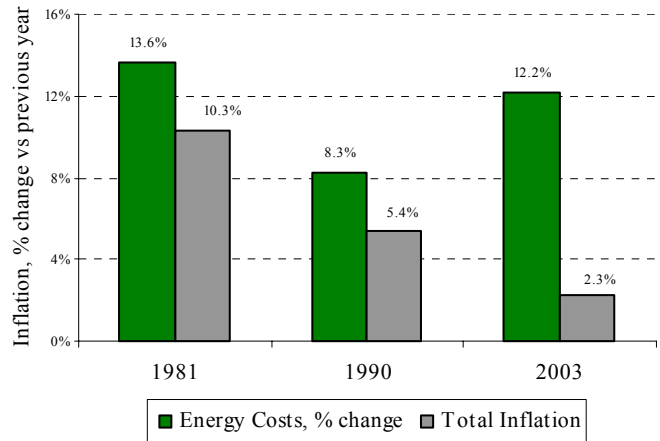


“Although rising, gas is still taking less out of consumers pockets.”

Inflation stays tame

We remain in a non-inflationary environment. This is due to a variety of factors, but primarily because of worldwide competition. There are many sources for goods and services in the ever shrinking globe. As mentioned in Pricing Power last quarter, very few industries have been able to pass along raw material price increases to their customers. End market companies simply absorb the costs in order to maintain sales levels. In addition to this, oil no longer has the impact on inflation that it used to, as more industries have moved from a manufacturing focus to a services focus.

The Diminishing Impact of Energy Cost Increases on Total Inflation
1981 to 2003



“Despite rising energy costs, inflation is staying tame.”

Stock Market valuations are very reasonable

If inflation were a problem, we would expect interest rates to rise, but interest rates actually fell in the quarter. The Ten Year Treasury fell from 4.73% to 4.12%, and the average thirty year mortgage fell from 6.02% to 5.51%. Corporate earnings are expected to be up about 14% this quarter versus last year and up 18% on the full year, although expectations call for only 7% growth next year. The widely used “price to forward earnings ratio” on the Standard & Poors 500 stock index is now at 16.3 times versus a ten year average of 21 times. Since the market corrected in 2002-2003 the low on the S&P PE was 16. In other words, stocks are nearly as cheap as they were at the bottom of the bear market. We feel these rock-bottom valuations are unwarranted, given the relatively positive prospects for our economy, and thus we remain bullish in our outlook for stock performance.

Maximizing Your Retirement Plan Allocation

*By Kirk Michie
& Robert C. Gillooly, CFA*

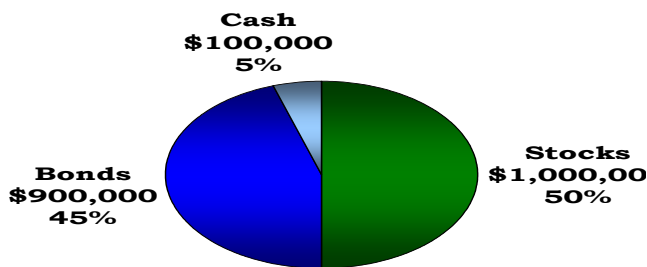
As Investment Advisors, we often see opportunities to meaningfully improve upon an investor’s results by making suggestions related to assets that we don’t manage (i.e. Company sponsored retirement plans like 401(k) accounts). Simply coordinating one’s overall asset allocation across *all* of their accounts will have a dramatic impact on controlling risk, and ultimately your net return – the return you keep. Just add these steps to

your year end planning to gain greater control of your portfolio results:

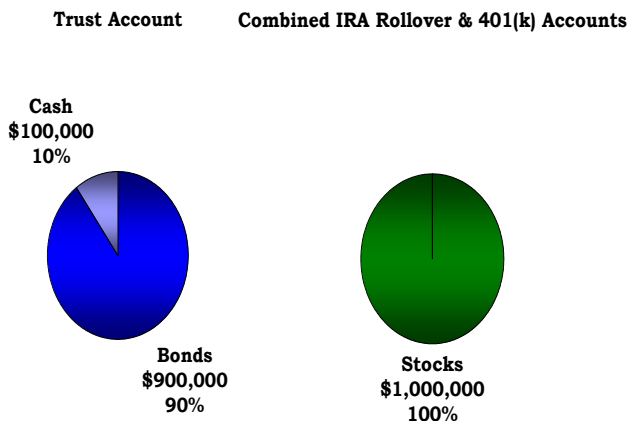
1. First, make sure you have a clear idea of your overall mix of stocks, bonds and cash (i.e. asset allocation) that will increase the probability of meeting your objectives. Take the following example for an investor who’s primary goal is comfortable retirement in 5+ years:

Investor A has;	\$1,000,000	Trust Account
	\$700,000	IRA Rollover
	<u>\$300,000</u>	401(k) Account
	\$2,000,000	All Accounts Combined

If his or her target allocation is 50% Equity/45% Fixed Income/5% Cash (cash should be minimal in any allocation unless there are specific liquidity requirements in the short term), then the target is:



2. The next step is to optimize this allocation with regard income tax deferral by ensuring that the most productive (i.e. higher growth) assets are sheltered by their tax exempt accounts (i.e. IRAs or 401(k) accounts, thus avoiding capital gains taxes). All of the Bonds (45% of the Total) and all of the Cash (5% of the Total) are allocated to the Trust Account, and both tax deferred accounts (IRA Rollover & 401(k) account) receive the remainder of the target mix (50% of the total) in equities;



While it may seem counterintuitive at first to allocate all of your retirement assets to equities, it makes perfect investment and tax planning sense for three reasons:

- Retirement Accounts and Non-Retirement Accounts will both combine to achieve the same long term objective – capital sufficiency for retirement.
- Avoiding the corrosive nature of capital gains taxes in taxable accounts through equity trading may add 1%-2% per year to overall returns.
- Maintaining liquidity in a taxable account avoids the impact of taxes and penalties in the event of an emergency expenditure.

3. Once steps #1 & #2 are firmly in place, the selection of securities or funds should then complement the broader choices that preceded them. Clearly, Osborne Partners has a perspective on the equity and fixed income choices that most effectively meet the objectives of our clients, and would be able to implement those strategies for this Investors Trust Account & IRA Rollover. But where we cannot implement our own processes and choices, we would counsel investors to make the following choices in his or her 401(k) Account:

- Assess all of your Plan Options for equity investment (Mutual Funds and Company Stock are most common).
- While Company Stock is often made more attractive with matching contributions, be a bit careful with that choice – many employees of WorldCom & Enron had 100% of their retirement funds invested in now worthless company stock. Osborne Partners’ historical rule of thumb is to allocate no more than 20% of one’s liquid net worth to Company stock.
- Utilize either broad market index funds where costs are often lowest, thereby increasing net returns, or well known funds that can be easily monitored through online resources like Morningstar.
- Consider complimenting other equity choices (i.e. Large Cap domestic stocks) by adding either Small Cap equity funds or International equity funds if they’re available, reputable, and the operating expenses are reasonable. This will balance the allocation against the elements that we’re handling on each investor’s behalf.

With the implementation of the foregoing steps as part of your year end planning, you will gain more control of your portfolios, and maximize your returns without increased risks – remember, it’s not so much what you *make*, but what you *keep* that counts in the long run.

Fixed Income Round-Up

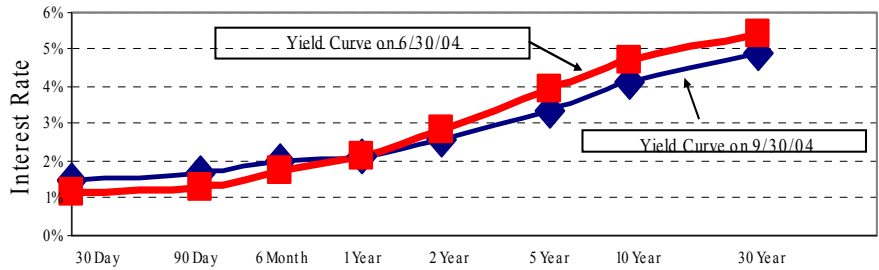
By Robert C. Gillooly, CFA
& Brett J. Prior, CFA

September 30, 2004

Yield

Average Money Market	1.25%
5 Year AAA Muni Bond	2.77%
5 Year AAA Corp Bond	3.98%
10 Year AAA Muni Bond	3.67%
10 Year AAA Corp Bond	4.87%
30 Year Fixed Rate Mortgage	5.37%

Treasury Yield Curve



The bond market continues to zigzag in 2004. Many fund managers were taken by surprise on the direction of the bond market, as interest rates once again reversed course and headed downward.

After bottoming in March at 3.68%, Ten Year Treasury rate climbed to a two-year high of 4.87% by mid-June. Since then, it has fallen 0.75% to 4.12%. Much of this decrease can be attributed to the 'economic soft-patch' that we hit over the summer. The Fed, however, seems confident that we will overcome this weak spot, as they now have raised short-term rates for the third time this year. Given the Fed's appetite for what appears like another rate hike or two, we anticipate that there is a fair probability that 10 and 30 year interest rates will again begin to rise.

Money market rates have shown improvement recently and are now averaging a 1.25% yield. If the Fed continues to raise rates, money market rates will follow, and this should allow cash to be less of a drag on overall portfolio returns.

Year End Tax Planning Tips

By Shannon S. Gallo-Lemon, CFP®

As the end of the year is fast approaching, I thought I would share some tax planning tips before we ring in the New Year.

- **Contribute the maximum to retirement accounts.** For 2004, company sponsored 401(k) Plans allow employees to set aside \$13,000 tax deferred. So, if you are not contributing the maximum, consider increasing your contributions through year end. If you happen to be 50 or older before the end of the year, you can make an additional catch-up contribution of \$3,000 to your 401(k) as well.
- **Set up a Keogh.** If you are self employed and do not have a Keogh Plan in place, set one up. Although the account does not have to be funded until you file your taxes, the plan must be established before the end of the year to contribute to it for 2004.
- **Make charitable contributions.** Consider gifting appreciated stock instead of making cash gifts. By gifting appreciated stock you are able to give more to the charity and avoid paying the capital gains.
- **Accelerate deductions.** Accelerate major deductions such as state income taxes, property taxes, and mortgage interest by paying those before the end of the year. Self employed? Pre-pay some of next years deductible business expenses. Keep in mind if you are in an especially high income year, there are phase outs limits for itemized deductions and if your deductions are too high, you may trigger AMT.
- **Avoid purchasing mutual funds before year end.** If you purchase mutual funds for self managed accounts, do not purchase mutual funds right before the capital gains distribution date. Find out the distribution date from the mutual fund company and buy afterward.
- **Contact your portfolio manager for review of your investment portfolio.** If you have capital losses being carried forward, they can be used to offset capital gains in the current year. Talk with your portfolio manager and they may take additional capital gains before year end to offset losses.

Hopefully with a bit of planning, you can make your tax bill to Uncle Sam slightly smaller in 2005.

New Phone System at OPCM

The firm recently had a new phone system installed. When calling the firm via the main line, (415) 362-5637, callers will now have the option of entering an extension of the person they are calling, entering the last name of the person they are calling or pressing "0" for further assistance. Our new extensions are listed below:

Charles Osborne Ext. 105
Bob Gillooly Ext. 104
Justin McNichols Ext. 106
Shannon Gallo-Lemon Ext. 103

Kirk Michie Ext. 109
Brett Prior Ext. 108
Christie Holmes Ext. 110
Carla Schot Ext. 100