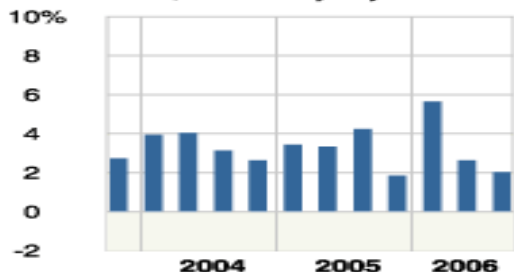




REAL GDP

Change from previous quarter at annual rate, seasonally adjusted



Source: Department of Commerce

UNEMPLOYMENT RATE

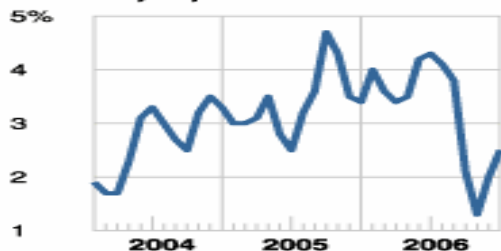
Seasonally adjusted



Source: Bureau of Labor Statistics

CONSUMER PRICES

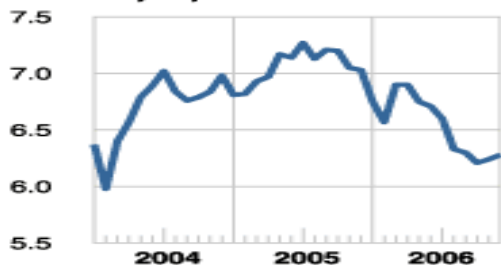
Change from previous year, not seasonally adjusted



Source: Bureau of Labor Statistics

EXISTING-HOME SALES

Annual rate, in millions of units, seasonally adjusted



Source: National Association of Realtors



Transitions

By Charles D. Osborne

The fourth quarter economy continued to be positive despite a slowdown in manufacturing and housing. The stock market also did well in a weak dollar, flat interest rate environment. These apparent anomalies are possible in a service based, knowledge led society.

In the switch to a service based economy we are dependent upon others to supply the raw materials and manufacture our products. The resulting trade deficits, periods of a weaker dollar and slower growth are all part of the process. The attractive side of a service based economy is that jobs are more secure, the economy less cyclical, and inflation more muted. Demand is thereby steadier, and when it does slacken, fewer people are affected.

Will our stock market continue to provide positive returns if we are net importers of manufactured goods? We believe so, as the components of our stock market, our companies have been able to profit, employ people here, and still add value in a competitive world. Many of our largest companies have adapted and grown with these changes and developed the knowledge portion of our economy such as software and other intellectual services.

Checkout our redesigned website at
www.osbornepartners.com/

American Companies Adapting

GE is an example of a company inside our economy that transformed from a primary American manufacturer to a global service provider. As it moved away from light bulb and appliance factories in upstate New York, it diversified into financial services and knowledge based industries including broadcasting and health care. Today GE derives about half its income from service based businesses. In 1975 mining, nuclear power, plastics, engines and motors were the driving forces behind GE earnings.

Fourth Quarter Economy

The economy grew again in the 4th Quarter, despite the aforementioned weakness in the housing and manufacturing sectors. Many other areas showed resilience. The work force is growing, incomes are up, and consumer price increases have moderated. The stock market and consumer confidence rose, as did corporate profits, albeit at a slower rate. The Dollar continued its slide versus the Euro, but oil prices decreased. The CPI finished the year at around 2.5%, and interest rates were essentially unchanged in the quarter.

Inflation and interest rates appear to be moving to a much lower range than from 1975-2000. It is more like the 50's and 60's. In that time period inflation ran around 2%, and interest rates were not much higher. Unlike the 50's and 60's the dollar remains a weaker currency.

Despite a nice move in 2005, global investors have

shown more confidence in the Euro this century. In 2000 you could buy a Euro for as little as \$.85, now it costs \$1.33. If the European central banks continue to fret over inflation and raise rates further, while we worry about a slowing economy, the dollar will stay weak in 2007.

Stock Market

Despite the latest scandals at HP and evidence of corporate greed shown in the back-dating options scandal, the stock market did well in the fourth quarter. The S&P was up about 6%, and our example, GE hit a post bubble high. Our belief continues that well managed American companies will adapt and grow with the times. It is not essential for a knowledge based company to have operations or employees located in the U.S. What is essential is that they are profitable and bring those profits back home.

2007 Tax Changes

By Shannon Lemon CFP

As we begin the New Year, there are a few tax changes in 2007 that are worth taking note of for your personal financial planning and estate planning.

Retirement Plan Limit Changes

Although not significant, elective deferrals under 401(k) plans, 403(b) plans and 457 plans increased from \$15,000 to \$15,500. The limit on extra catch-up contributions by participants age 50 or older stayed at \$5,000 for 2007. The total contributions of \$20,500 can be made by participants 50(+) in 2007.

Section 415 (403(b) plans, SEPs and SIMPLEs) limits increased from \$44,000 to \$45,000 for 401(k) plans and other defined contribution plans, and from \$175,000 to \$180,000 for defined benefit plans. The limit on the annual compensation that can be taken into account by qualified plans increased from \$220,000 to \$225,000.

For individuals who had spouses that were not employed in 2006, or did not participate in a qualified plan while employed, a deductible contribution of \$4,000 can be made if a couple's Joint AGI is below \$160,000. If you are NOT eligible to make a deductible contribution, but your AGI falls below the \$114,000 (up from \$110,000) for individuals and \$166,000 (up from \$160,000) for married couples, you can make a \$4,000 Roth IRA contribution.

As a reminder, contributions to IRA accounts and Roth IRA accounts need to be made prior to April 16, 2007 to be counted for 2006. **For self employed individuals who file an extension, you have until October 16, 2007 to fund your SEP-IRA for last year. However, if you don't file an extension, the last day you can contribute to a SEP would be April 16, 2007.

IRA Distributions to Charities

Do you need to take a distribution from your IRA in 2007 and also want to make a charitable contribution? You are in luck for 2007. If you're 70½ or older, you can transfer as much as \$100,000 directly from your IRA to a qualified charity without being taxed on that money. In addition, the transfer to the charity will count towards your annual required minimum distribution.

Non-Spousal Inheritance of Employer Sponsored Retirement Accounts

Prior to 2007, if a non-spouse inherited money from a employer sponsored retirement plan, the distributions from the account could not be "stretched" out over time and the tax bill associated with the distribution was often large. With the new tax change, a child or any other non-spouse who inherits money in a qualified retirement plan can transfer it directly into an IRA.

The benefit of doing so allows the individual to take the distributions over several years while allowing the account to continue growing tax deferred while minimizing the tax impact. This change is significant for individuals in non-traditional relationships who want to leave money to their loved ones.

Employment Income

In 2007 you will owe more Social Security Taxes. The maximum amount of earnings subject to the Social Security tax rose to \$97,500 in 2007 from \$94,200.

Estate Planning Limits

Annual Gift Exclusion \$12,000 (no change)

Estate Tax Exclusion \$2,000,000 & Top Rate 45% (down from 46%)

One final note, remember to utilize the expertise of Osborne Partners. If you anticipate any changes to your financial circumstances or would like a financial planning review, please give us a call. Happy New Year!

January 9, 2007	YIELD
Average Money Market Fund	4.75%
5 Yr AAA Muni Bond	3.73%
5 Yr AAA Corporate Bond	5.16%
10 Yr AAA Muni Bond	3.94%
10 Yr AAA Corporate Bond	5.37%
30 Yr Fixed Rate Mortgage	5.69%

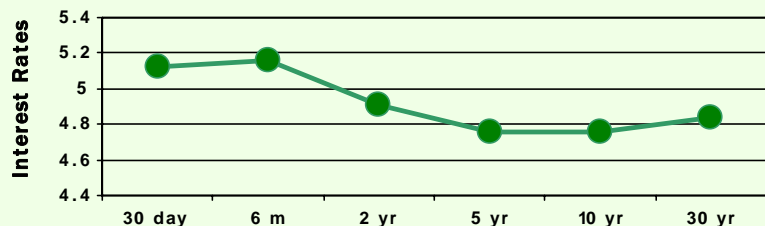
Fixed Income Round up

By Bob Gillooly CFA

Yields in the Treasury market were fairly stable in the 4th quarter, as many bond market participants pondered the next move of the Federal Reserve. The yield curve, however, has a slightly more negative slope to it, which according to traditional economists means we are heading for a recession. The OPCM Investment Team is not forecasting a recession in 2007, but we are keeping a close eye on the signals the bond market is showing us.

Municipal bonds continue to be attractive. Their yields have increased versus comparable treasuries, as a 10 year municipal bond now has an after tax equivalent yield of about 6.0% (based on a 35% tax bracket). Even munis with a maturity as short as 1-2 years will provide an after tax yield of over 5%, an attractive return in this environment. If inflation continues to remain subdued, we expect another year of very good bond market returns.

Treasury Yield Curve



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New Additions to Osborne Partners

Alex Okun joined the firm in November of 2006, as part of our Operations team, focusing on Accounting and Technology issues.

Alex received his BS in computer science from Cal State East Bay in 2001. He is currently pursuing his MBA with Cal Sate, with an emphasis on Finance & Accounting.

Jany Molina also joined the firm in November of 2006, and is working in Client Service and Operations. He will be assisting our clients with money movement, gifting and general account administration.

Jany recently received his BA in Economics from the University of California at Davis. He has prior experience in the banking industry, having worked at Washington Mutual for three years while in school.