Great Companies, Inc.
Quarterly Review 4th Quarter 2006

	Great Companies
+	Great Investments
=	Great Returns

Calendar year 2006 proved to be paradoxical for Great Companies, and you, our valued clients. From a stock price performance point of view, we returned more than T-bills, but less than the S&P 500. Although respectable, we are mildly disappointed by these results. On the other hand, the great companies in your portfolios had above-average operating results. Assuming the earnings continue to grow as forecast, this should lead to long-term above-average performance.

The primary reasons why we underperformed the averages last year were politics and risk aversion. The primary reasons we have outperformed the averages over the longer run are above-average operating results and the discipline to keep our valuations in line with those operating results. In 2006 we avoided consumer staples like Procter & Gamble, Johnson & Johnson and Colgate Palmolive because we recognized that their valuations were too high to safely invest.

Unfortunately, the "market" disagreed and we missed some strong short-run moves. At the right valuation we would love to own those names, but we refuse to overpay. It was this very principle that kept all of you from losing your money during the bear market of 2000 - 2002. Based on the principle of valuation, we are confident that those great, but overpriced companies' best performances are behind them. On the other hand, the great companies that we own are at more attractive valuations with higher growth prospects and, in our opinion, should see their best returns in the future.

The politics referred to above were the options backdating scandals that affected many companies. Several of the companies we owned were affected as well as many others we didn't own. It is important to recognize that the politics of option backdating had little impact on the health of the businesses we owned, yet had a large impact on short-run stock price movement. Since our businesses are still strong and growing, we took advantage of this temporary weakness to add to our positions. Once the scandals pass, and they will, we are confident that the fundamentals will take over and outsized profits will follow.

Behavior, such as described above, represents one of the major distinctions between speculating and investing. At Great Companies, Inc., we subscribe to the school of investing and leave the speculating to those who choose to gamble. As investors, we further subscribe to the safer, more rational long-term view. Stock prices will always reflect True Worth™ value in the long run, and can be quite emotionally driven and irrational over shorter periods of time. Therefore, the long-term view is both safer and more profitable. It only requires patience, mixed with a little knowledge of where value really comes from. As hopefully most of you understand by now, value comes from earnings and how fast those earnings grow.

The benefits of focusing on operating results rather than stock price movement are numerous and powerful. First of all, it is easier to forecast the growth potential of a great well-run company than it is to guess whether the crowd will be buying or selling today. Therefore, business results are both more reliable and less volatile, which make them less emotionally charged. Stock prices rising or falling by several percentage points a day can be quite unnerving, causing you to make mistakes. Second, valuation is mathematically calculable, which empowers you to more easily determine overvaluation or undervaluation when it exists. Therefore, practical and intelligent decisions can be made instead of emotional ones.

Our powerful Great Companies, Inc. Fundamental Analyzer™ software allows us to efficiently make the necessary calculations on your behalf easily and effectively. This is a truly valuable advantage that has protected and grown our clients' wealth for a long time. With the benefits of this tool we are making sound decisions based on economic principles instead of "rolling the dice" with your hard-earned money. In order to correctly value your portfolio, we encourage all of you to rely on the tool to judge the past, present and future value of your holdings. This information will change the way you evaluate your portfolio and, in our opinion, should make you money in the long run.

The logical and successful philosophy of investing in great companies at sound valuation is concisely articulated in our new name and logo. Great Companies, Inc. is our name and "Earnings Determine Market Price" remains the foundation of our strategy. If you do use our Great Companies, Inc. Fundamental Analyzer™ tool you will discover that your portfolio holdings have generated long-term returns for their shareholders far in excess of the average business. This is why we continuously point out to you that the stock market has nothing to do with investing. Simply put, shareholders ultimately get their returns from the businesses they own, not the market. **Great Companies + Great Investments = Great Returns.**

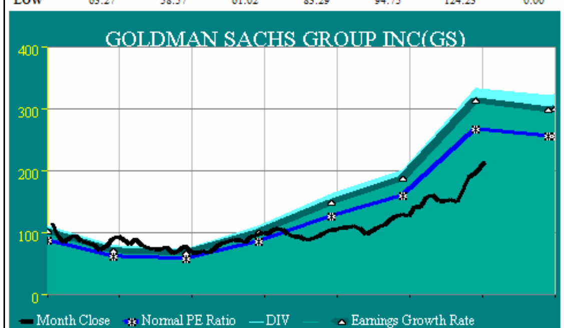
It is this very important fundamental investment reality that has motivated us to include a featured company in each quarter's newsletter. Our objective is to encourage you to see the business behind your investment and not merely the fickle and volatile stock price movement. As a point of fact, the better you know and understand the great businesses you own, the less vulnerable you will be to the vagaries of an often irrational stock market. Exploiting market inefficiencies is best achieved by investors who know the value of what they own.

This quarter's featured company clearly articulates the validity of this principle. Goldman Sachs is one of the premium financial services companies on the entire planet. Short-term weakness in its stock price last year created a long-term opportunity to buy it. The results, although still rather short term, illustrate the benefits of buying a great company when the market is temporarily mispricing it. Even after a significant gain, the long-run future still looks above average.

As you can see in the following pictures, Goldman Sachs has a great operating record, growing earnings at close to 16% per annum since it has gone public.

7 Year Performance History

YEAR	2001	2002	2003	2004	2005	2006	2007
HIGH	120.00	97.25	100.78	110.88	134.99	203.35	0.00
LOW	63.27	58.57	61.02	83.29	94.75	124.23	0.00



Price: 213.23
01/17/2007
P/E: 10.9
DivYld: 0.6%
Earnings Growth Rate 15.9%
Normal PE Ratio 13.6
Market Cap. 90.80 Billion

EPS	4.53	4.27	6.36	9.36	11.78	19.69 E	18.82 E
Change /Yr	-32.4%	-5.7%	48.9%	47.2%	25.9%	67.1%	-4.4%
DIV	0.48	0.48	0.74	1.00	1.00	1.30	1.50 E

Historical Chart for GS

As expected, this exceptional operating record also created an above-average return to it shareholders.

GOLDMAN SACHS GROUP INC(GS)
7 YEAR PERFORMANCE RESULTS

Amount Invested: $ 100,000 Shares: 879 **Closing Value: $187,429.17**
Split-adjusted Price(01/31/2001): 113.75 Closing Price(01/17/2007): 213.23

		S&P 500
Total Cash Dividends:	$ 5,713.50	
Closing Cash Value:	$187,429.17	$104,435.26
Closing Annualized ROR:	11.1%	0.7%
Total Value:	$193,142.67	
Total Annualized ROR:	11.7%	

Performance History for GS -

The following "Thesis for Growth" and "Outlook: Growth by the Numbers" on Goldman Sachs show why we are so excited about this high quality holding.

THESIS FOR GROWTH

Goldman Sachs provides investment banking, securities, and investment management services worldwide. It is a consistent top-tier global player in key high margin lines of business such as equity underwriting and mergers and acquisitions. The company is also one of the two dominant prime brokers to the fast growing hedge fund industry. Its asset management unit has been among the industry's fastest growing, and possesses substantial growth potential in the fixed income business. Goldman has also proven to be head and shoulders above its peers in using its own capital to invest in distressed assets, restructure them, and generate substantial gains upon return to the capital markets. In addition to being viewed as "best in class" in mergers and acquisitions and equities underwriting, the company has the largest commodities franchise in the industry. The company has been a pioneer in China and Japan with the strongest investment banking franchise in Asia. Goldman was founded in 1869 and serves pension funds, government organizations, corporations, insurance companies, foundations, and high net worth and retail investors.

… head and shoulders above its peers in using its own capital to invest in distressed assets, restructure them, and generate substantial gains …

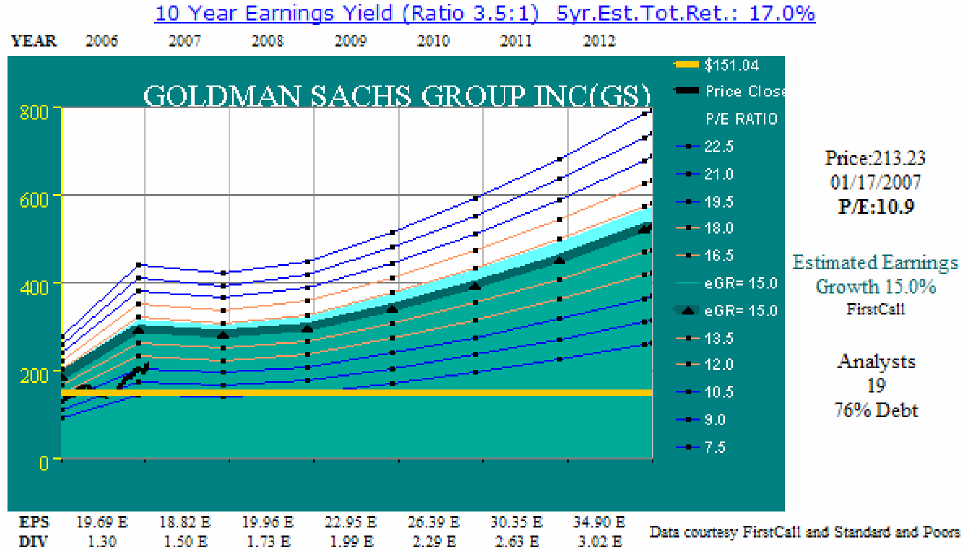
The company's growth has been generated through its highly regarded reputation, strong customer relationships and ability to commit its capital. Future growth continues to look bright as new avenues of opportunity open up. These include infrastructure as pension funds seek long duration sources of income, middle market investment banking as this sector becomes more sophisticated, equities as new products continue to grow, with strong opportunities in emerging markets, and asset management with particular emphasis on alternative products. Additional growth exists in derivatives, hedging, alternative energy and leveraged finance.

Although the vagaries of the capital markets may at times make earnings growth somewhat "lumpy," the long-term prospects for this premier investment bank are compelling for growth investors.

Forecasting future earnings growth, bought at sound valuations, is the key to sound, and profitable performance.

OUTLOOK: GROWTH BY THE NUMBERS

10 Year Earnings Yield (Ratio 3.5:1) 5yr.Est.Tot.Ret.: 17.0%



Forecasting Chart for GS

ESTIMATED FUTURE FUNDAMENTAL VALUATIONS

The consensus of the 19 leading industry analysts reporting to FirstCall estimate Goldman Sachs' 5 year earnings growth rate at 15.0%. Goldman Sachs is currently trading at a P/E of 10.9, which is inside the value corridor (defined by brown lines) of a maximum P/E of 18. If the earnings materialize as forecast, Goldman Sachs' True Worth™ valuation would be $523.50 at the end of 2012, which, assuming the company is trading at a 15.0 P/E at that time, would be a 17.0% annualized rate of return.

The primary point this quarter's newsletter is addressing is the stock markets' penchant for temporarily mispricing the worth of a publicly traded business. These short-term inaccuracies of valuation are rooted in the emotional nature of those that buy and sell stocks. Human beings ultimately take a rational and logical approach to their world over time. However, strong emotions such as fear and greed can and often do prevail over shorter periods of time. Therefore, judging the performance of a stock portfolio based solely on price volatility is a breeder of irrational response. Unfortunately, this is precisely how most investors behave, much to their long-term detriment.

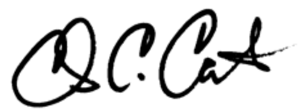
Our research, conducted over many decades, clearly proves that in the long run, operating results are more important than price movement. As we have evaluated thousands of companies the evidence is clear for company after company, the correlation to how well the business grows its profits translates into how much money their shareholders make over time. As previously stated, on the basis of operating results, we had a great 2006. In other words, our businesses did much better than the market gave them credit for.

From our perspective not only do we hold a portfolio of great companies, we also see great value and opportunity as well. To be clear there are a few exceptions to the above statement. The good news is that several of our great companies enjoyed strong upside price movement last year. The bad news is their prices rose too high. Therefore, we will be trimming or selling these holdings to make room for better and safer opportunities. The best news is we have identified some exciting replacements.

To summarize, if we allow volatile stock prices to trouble us, it would affect us on two fronts. When a great companies' stock price falls for less than valid reasons, our fear of losing money would interfere with our ability to see a real bargain. On the other hand, an irrationally exuberant rising price would elicit our greed, causing us to overlook imminent danger. Focusing on the True Worth™ of each of the companies we own, however, empowers us to make a rational buy, sell, or hold decision. Therefore, we are never at the mercy of what is often a wild and crazy stock market.

And, as we hope you all agree: in the long run **Earnings Determine Market Price.** Always have, and always will.

Sincerely,



Charles C. Carnevale
Chief Investment Officer

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