



INVESTMENTS, INC.

# MarketView

First Quarter 2008

## Notable Quotes...

“My problem lies in reconciling my gross habits with my net income.” *Errol Flynn*

“Car sickness is the feeling you get when the monthly payment is due.” *Author Unknown*

“Inflation hasn't ruined everything. A dime can still be used as a screwdriver.” *Quoted in P.S. I Love You, compiled by H. Jackson Brown, Jr.*

“I am opposed to millionaires, but it would be dangerous to offer me the position.” *Mark Twain*

“They who are of the opinion that Money will do everything, may very well be suspected to do everything for Money.” *George Savile, Complete Works, 1912*

“The real measure of your wealth is how much you'd be worth if you lost all your money.” *Author Unknown*

## 2007 in Review...

What a year it was. Looking back at the roller coaster ride presented by the 2007 financial markets, one word remains etched in our minds, “**Volatility.**” Through the end of November the Dow Jones industrial average hit a record high 34 times. The roller coaster ride continued in December and it’s conceivable this type of volatility could continue in 2008.

As investors struggle to gain additional insight into the ebbs and flows of the market, one question remains. What can we take away from 2007? This question was posed to a number of successful Wall Street investors as the year drew to a close:

Dan Foss, Vice Chairman and portfolio manager of Loomis, Sayles & Co. suggests “the worst thing you can do is get into frequent asset reallocations, there’s a financial cost going from fund A to fund B. The more important cost is that it messes up your thinking about what it is that you want to accomplish with these funds.”

Bill Gross, Chief Investment Officer of Pacific Investment Management Company, talks of his lesson learned from the 2007 credit markets. He indicates “ ‘too securitized to fail’ was exposed for what it

*(Continued on page 2)*

## GS Investments, Inc. Largest Stock Holdings

12/31/2007

<u>Securities</u>	<u>Pct.</u>
Ishares Trust MSCI EAFE Index Fund	4.11%
Ishares Trust MSCI Emerging Markets Index Fund	2.07%
Apple Computer Incorporated	1.91%
Ishares MSCI PAC Ex-Japan Com Index Fund	1.87%
Proctor and Gamble Company	1.82%
ExxonMobil Corporation	1.82%
PepsiCo Incorporated	1.74%
Microsoft Corporation	1.70%
Cisco Systems Incorporated	1.62%
Altria Group Incorporated	1.60%



*"Stocks pull out of a dive."*

*(Continued from page 1)*

always was, ‘garbage in garbage out.’ Hundreds of billions in losses await those that took the AAA Kool-Aid, and a frozen ‘deer in the headlights’ investment community stands by in hopes of central bank salvation. The rate cuts will come but salvation will dangle tantalizingly out of reach.”

Harry Lange, portfolio manager of the Fidelity Magellan Fund feels “the key lesson that fund investors should learn from 2007 and apply to 2008 — and beyond — is the importance of portfolio diversification in a volatile market.” The importance of his contention is evidenced by the variance in S&P 500 Index industry returns, through November 2007. During this period, returns ranged from 25.2% for energy to -18.6% for financials.

Peter G. Crane, Publisher and President of Crane Data, LLC, says “the circumstances change, but the lessons are almost always the same. ‘Don’t get greedy and don’t get excited’ are my two favorites from 2007. His contention is that investors should ignore market movements and match their investments to their current and future needs.” (Glenn and I strongly agree.)

Jeremy Siegel, Professor of Finance at the Wharton School of Business reiterates that “a lot of people are scared away when they hear the headlines of big declines in the market. It’s very important not to be caught up in the prevailing sentiment, because usually those are not good times to sell when the market is going down. In fact, this is really an illustration of the importance of what we call dollar-cost-averaging. Basically, you have an automatic deduction program when you buy \$200 of a given security. When the market goes down the \$200 buys you more shares, and when the market goes up, you buy less shares. This is an approach which has been known for years. In these volatile times, it gains the most.”

Kenneth Heebner, portfolio manager of the CGM Realty Fund feels that 2007 has uncovered a nice opportunity for investors in 2008. He contends, “the principal driver of growth in retail REITs is the rolling over of five and 10-year-old leases to substantially higher rent levels reflecting the increase in rental rates over these time periods.”

Heebner also finds industrial REITs attractive. He indicates “we find industrial REITs that focus on activity at Port levels, particularly those with significant foreign operations, to be very attractive as well.”

### *...a Preview of 2008*

During the New Year holiday, Glenn and I were often  
*(Continued on page 3)*

### **Tax Tips**

**Maximize your IRA Contributions** In 2007 you can contribute \$4000 to your IRA, or a \$5000 "catch up" contribution if you are age 50 or older.

The choice between contributing to a traditional IRA or a Roth IRA depends on your situation. We can help you determine which may be the better choice for you. Call us if you're not sure. For 2007 the income limits increase for making contributions to a Roth IRA. For joint filers, contributions phase out if your income is between \$156,000 and \$166,000, up from \$150,000 to \$160,000 in 2006. For single filers in 2007, the range has increased to \$99,000 to \$114,000. For 2006, it was \$95,000 to \$110,000.

**Charitable Giving** Do you donate cash to charity? If so, you now need a "bank record," such as a canceled check, or a receipt from the charity in order to deduct the donation, no matter how small. If you want to deduct your gift, write a check or make sure to get a receipt.

**Direct Donations to Charities** Consider taking advantage of a tax break scheduled to expire at the end of 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. The transfer counts toward your required minimum distribution. This provision also applied in 2006.

**Review IRA Beneficiaries** Reviewing the beneficiaries of your retirement plans is a good idea if you haven't done so in the past. If you have had a change in your family situation such as a marriage or birth of a child or grandchild, a review of this situation is a necessity. Please call us if you need assistance.

(Continued from page 2)

asked about how we viewed the economy and financial markets for 2008. We feel that 2008 will likely present us with numerous challenges and subsequent opportunities when contemplating the investment of client funds. Specifically, here is what we see for 2008:

### **Bearish-signals**

- ◆ GDP growth slowing to 1 ½% to 2% .
- ◆ Job growth slowing to 1.25 million.
- ◆ Crude oil averaging \$78 or higher.
- ◆ Housing sales falling an additional 10%.
- ◆ Retail sales slowing to 2.5% growth.
- ◆ A trade deficit of 3.8% of GDP.

### **Bullish-signals**

- ◆ A Federal Reserve determined to keep economic growth moving forward; the Federal Funds rate, now 4.25%, could possibly decline to 3% in 2008.
- ◆ The Federal Reserve Board working together with the Administration to solve the “sub-prime” issue.
- ◆ Strong per capita, personal income growth, expected to come in an annual rate of 2.5% for 2008.
- ◆ Strong employment growth, expected to remain at a modest 4.7% annually.
- ◆ Strong corporate balance sheets with the exception of financial companies.
- ◆ Election year.
- ◆ Increased federal spending.
- ◆ Increased foreign investment in US markets.
- ◆ A tame core inflation rate.

### **Our Forecast**

Growth in the domestic economy will probably moderate this year from the 4% rate in 2007. Housing and energy prices will no doubt continue to negatively influence growth, and it is difficult to forecast the time when these important areas will stabilize. However, it is encouraging to see the Federal Reserve step in by lowering interest rates and providing liquidity for the banking system in order to avoid a lending shut-down. Inflation remains a

risk, but it may come under control later this year. Unless unemployment (now at 5%) rises significantly, consumer spending will continue to support our economy, albeit at a contained rate.

Discretionary consumer spending, on the other hand, may struggle as consumers react to pressures on disposable income. There is some evidence that business spending is being constrained, but corporate cash flows and balance sheets appear to be in good shape with the exception being the financial sector.

As for account management, we finished 2007 with strong investment returns in spite of the slight December decline in equity prices. In taxable accounts we were active toward the end of the year in reducing net capital gains. Although some accounts had substantial net capital gains, the good news is most of those gains will be taxed at the 15% rate. As a result of this activity and the sale of some stocks, account cash positions were increased.

We have been proceeding cautiously so far in 2008. One of the areas we are examining is financial stocks. We have underweighted this area for some time, but cash dividend returns have jumped to a range of 4%-6%+ for some quality names, and there may be long-term opportunities in these stocks. Also we have been rearranging our healthcare holdings and may find some new names in this industry sector. In lieu of bonds we have been buying preferred stocks to gain high dividend returns. So, we have been picking away in different areas to gain good investment returns. One thing to remember is that election years often result in positive stock returns, because there are so many promises made. One issue we feel strongly about, however, is that it will be difficult to gain office if a tax INCREASE is part of the platform. Strapped consumers may not support a tax bump when energy and health care costs have been tough on pocketbooks.

Needless to say, we look forward to working with you in the New Year, and we thank you for your continued business with GS Investments.

*Glenn and John Steinke*



*"Getting hooked on credit cards."*



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## **GSI Tenets**

### **Who is GSI?**

GS Investments, Inc. is an investment management company specializing in individual and institutional asset management. Privately owned and operated, GS Investments, Inc. is run by its two principals, Glenn H. Steinke, C.F.A., and John G. Steinke, M.B.A.

**Glenn Steinke** brings over 45 years of investment management experience to the business. Previous capacities include Vice President and Senior Investment Officer with a major pension fund (\$1.8 billion under management) and Senior Vice President with a major Minneapolis-based financial institution (\$3 billion under management).

**John Steinke** offers a broad financial services background with 14 years of portfolio management experience and 7 years of banking experience including capacities as a Vice President of a \$50 million bank and as a private banking officer for a large, Minneapolis-based financial institution.

### **GSI Investment Philosophy**

GS Investments, Inc. utilizes a balanced approach for the majority of its accounts although each account is tailored to the individual needs of each client. Taxable or tax-exempt bonds are used along with a common stock component. The division between bonds and stocks is determined by the personal objectives of each client. A need for income and a willingness to assume risk are also determinants of an account's bond/stock mix.

GS Investments, Inc. emphasizes the purchase of quality securities and employs a long-term investment style as market timing, frequent shifts in asset allocation and interest rate forecasting are not consistent with the firm's philosophy. In depth market analysis and many years of experience support this approach.

### **GSI Fixed Income Strategy**

GS Investments, Inc. emphasizes a staggered maturity approach when purchasing bonds. Individual security investment grades and call protection are considered when making these investments. Quality grades of "A" or higher are favored with tax-exempt issues. Government bonds are dominant among taxable securities.

### **GSI Equity Strategy**

GS Investments, Inc. favors stocks emphasizing quality and growth. Appropriate cyclical growth stocks and small capitalization growth stocks are used periodically as well. Additionally, GS Investments, Inc. believes that a growth oriented philosophy tends to result in less frequent trading and lower tax payments (for taxable accounts) on realized capital gains. This provides a lower cost approach for the client.

GS Investments, Inc. emphasizes client communication. Written investment objectives as well as periodic oral and written reports are used to heighten the understanding between the client and investment manager. In addition, easy to read, detailed reporting is provided by state of the art investment software in order to inform the client of portfolio progress.