GS
INVESTMENTS, INC.
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MarketView

First Quarter 2011

"We've considered every potential risk except the risks of avoiding all risks."

2010 in Review

2010 was another rewarding year for GSI accounts, following strong 2009 results. Looking back, the consensus in 2008 and 2009 was that financial markets were collapsing and might not recover for quite some time. However, actions taken by foreign and domestic governments and corporations have so far been successful in turning the global economy around to the point where we all are now experiencing growth rather than contraction. What happened? What were our results? Are there still headwinds? What do we see happening in 2011?

Last year, the stock market stumbled several times. There were significant declines in January, April, May and July. Each downturn was driven by a fear of a "double dip" in the economy. The other months produced positive returns driving the S&P 500 up 15%, including dividends. Our results were significantly better. All other asset categories, preferred stocks, international equities and certain fixed income securities provided strong positive annual returns. In spite of fears related to the economy, corporations were effectively managing their businesses and consequently corporate earnings improved sharply. Corporate earnings, not global economic fears, were driving the markets. The only poor investment was cash due to low interest rates orchestrated by the Federal Reserve. Cash returns offered by banks and money market funds were hardly positive and although they may have offered peace of mind, they turned out to be poor investments.

In 2010 all account relationships under our management produced double digit returns. This followed 2009 when total account returns were roughly 20%. In fact, accounts that did not experience periodic withdrawals, completely recovered losses that were experienced in the 2008 meltdown. Granted, the decade ending in 2010 realized little change in the stock market, but the debacle in the latter years of the decade has been overcome.

During the last two years, the temptation has been to be underinvested: that is, to be out of the market. Clearly, in hindsight, this has been the wrong approach for the investment of funds. Being fully invested has proven to be the right choice. Daily chatter by media experts drove a spike of fear through the hearts of many in-

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Largest Stock Holdings

12/31/2010

Securities	Pct.
iShares MSCI Emerging Markets Fund	3.51%
Apple Computer Incorporated	3.42%
iShares BRIC Fund	3.32%
Exxon Mobil Corporation	2.29%
Wells Fargo and Company	2.01%
Hasbro Incorporated	1.97%
Costco Wholesale Corporation	1.97%
McDonalds Corporation	1.82%
International Business Machines	1.73%
Microsoft Corporation	1.71%
Express Scripts Incorporated	1.63%
Ross Stores Incorporated	1.55%

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vestors over the last two years. As a consequence, many investors, especially retirees living on fixed incomes, were convinced that their financial future was grim, and they chose to exit the marketplace. Unfortunately, their timing was poor and it will forever affect their financial future.

So, will 2011 be like 2010? Probably not. The following is our discussion regarding our outlook for 2011.

By Mike Smith, Las Vegas Sun, for USA TODAY

Notable Quotes

"An investment in knowledge always pays the best interest."
Benjamin Franklin

"The four most famous words in investing are 'this time it's different.' "
Sir John Templeton

"Models work when they are appropriate for the particular circumstance, but some of the best investment judgments over time have come when people recognized that models derived in other periods were broken or not directly relevant."
Abbey Joseph Cohen

"He's a serial entrepreneur. Somebody stop him before he makes a killing again."
Carl Zetie

"Money is better than poverty, if only for financial reasons. "
Woody Allen

"Risk is the price for opportunity."
Anonymous

"You only truly know you own something when you can carry it in the middle of the night at a dead run."
Anonymous

Fixed Income Outlook

In discussing this section of a portfolio, we have to include preferred stocks and utility common stocks, the latter used as bond substitutes.

Interest rates have been unusually low throughout the period of the financial meltdown. Federal Reserve Chairman Bernanke wants to move to an inflationary environment, ideally 2% to 3%. If he is successful, interest rates will rise. Already there is anticipation of this move. Rates on ten-year Treasuries have moved up nearly 1% to roughly 3.40% and 30-year mortgage rates have increased to nearly 5%. Over the last month bond prices have dropped reflecting the higher rates. Preferred stocks may, at best, provide a return approximating their 7% dividend yield. Last year, our preferred stocks provided double digit returns through a combination of yield and capital appreciation. This was also true for utility common stocks. We feel there is potential for modest price appreciation for utility common stocks; this coupled with dividend returns of about 5% could result in utilities providing a total return close to 10%. The duration of our bond portfolio is short, meaning our average maturity is less than 5 years, so price risk is reduced. Although the risk of possible negative returns remains, we do see the potential for slightly positive total returns as well.

Equity Outlook

The mystery portion of portfolios is common stocks. Again, there are headwinds that include unemployment, municipal deficits (that will require funding), foreign governments with excessive debts, war, etc. Strong corporate earnings have been and will continue to be of utmost importance. Corporate balance sheets are in excellent condition, and if good earnings continue, common stock prices will rise. The earnings season is now upon us and

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fourth quarter 2010 results are being reported.

We don't believe the common stock market is overpriced. In fact, there is a good argument that the stock market is undervalued. We believe banks, on a selective basis, will continue to prosper financially, raising their dividends as a result. In a sense, they are earning their way out of the crisis. Auto stocks could also do well as global automotive sales are expected to remain strong. Energy stocks should do well with oil above $80/bbl (currently at $93/bbl). Technology should benefit from higher corporate investment spending and important upgrades to product cycles. So, it appears as if the common stock portion of portfolios could provide positive returns making it three years in a row. Stock selection is more important now than it has been over the last two years when it seemed as if nearly anything purchased was a winner.

Andrew Grove, who served as chairman and chief operating officer of Intel Corporation in the 1990's and into this decade, is often quoted now as an emeritus icon for the corporate sector. Last year in a Business Week article, he noted the importance for the United States to recover its manufacturing capability. It is well known that over the recent decades this country has shifted from a manufacturing economy to a service economy.

ECONOMIC FORECASTS	
↑	**GDP** 2.6% growth in 2011; picking up to 2.9% in 2012.
↑	**Interest rates** Prime, 4.25% until late 2011; 10-year T-notes, 3.5% by late 2011.
↓	**Unemployment** Currently 9.2% a bit lower in 2011.
↓	**Inflation** Currently 1.1%, moving to 1.6% by year end.
↓	**Crude oil** Currently $78/bbl, moving to $83/bbl by year end.
↑	**Trade** Edging up to $450 billion in 2011, from $404 billion in 2010.

1 Kiplinger Letter, December 22, 2010.

PROFIT GROWTH OUTLOOK

S&P 1500 Sector	E2011 EPS Growth%
Consumer Discretionary	12
Consumer Staples	10
Energy	16
Financials	19
Health Care	15
Insutrials	14
Information Technology	15
Materials	28
Telecommunications Services	6
Utilities	5
S&P 500	13
S&P MidCap 400	23
S&P SmallCap 600	33

Data as of 1/11/11. E-Estimated. Source: S&P Equity Strategy

There are several reasons that caused this to happen. Lower labor costs in foreign countries have been an important factor. The dollar has been strong until recent years. Lower taxes and tax incentives in some foreign countries have also been helpful. The United States has begun to address these issues, and the trend may be changing. One good example is the automobile industry.

Although GM, Ford and Chrysler are not the "Big Three" any longer, their market share is improving in an enlarged group referred as the "Big Seven."

Manufacturing is not only improving in the United States but in countries across the globe. A Ned Davis research report noted that the JP Morgan Global Manufacturing Purchasing Managers Index (PMI) "reached the highest level in six months and well above the long term mean." The report also noted "the latest Global Manufacturing PMI reading corresponds to 3.2% annualized real GDP growth in the G7, above its average growth over the past 15 years, an encouraging sign for 2011."

We do not want to promote a sense of "unbridled optimism" in 2011 but we do suggest that investment opportunity, albeit selective, remains.

Happy New Year!

"I call my invention 'The Wheel,' but so far I've been unable to attract any venture capital."

Our greatest compliment is your referral.

GS

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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, CFA 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). Glenn is a graduate of the University of Minnesota.

John Steinke MBA offers a broad financial services background with 18 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. John received his BA from Concordia College (Moorhead) and his MBA from the University of Minnesota.

Greg Cunningham comes to us from Minneapolis-based Ameripris e Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Greg spent 15 years at Ameriprise, most recently in the asset management group. In this role he worked with the Chief Investment Officer in support of the international and domestic hedge funds and with the President and General Manager of Riversource mutual funds. Greg is a graduate of Gustavus Adolphus College in St. Peter, MN.

Sheri Ritchie brings over 20 years of financial services experience to the business. Previous capacities include client service and support positions with Dean Witter and Kemper brokerage firms and a Minneapolis-based investment management firm. Sheri is a graduate of the University of St. Thomas.

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.