GS INVESTMENTS, INC.
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MarketView

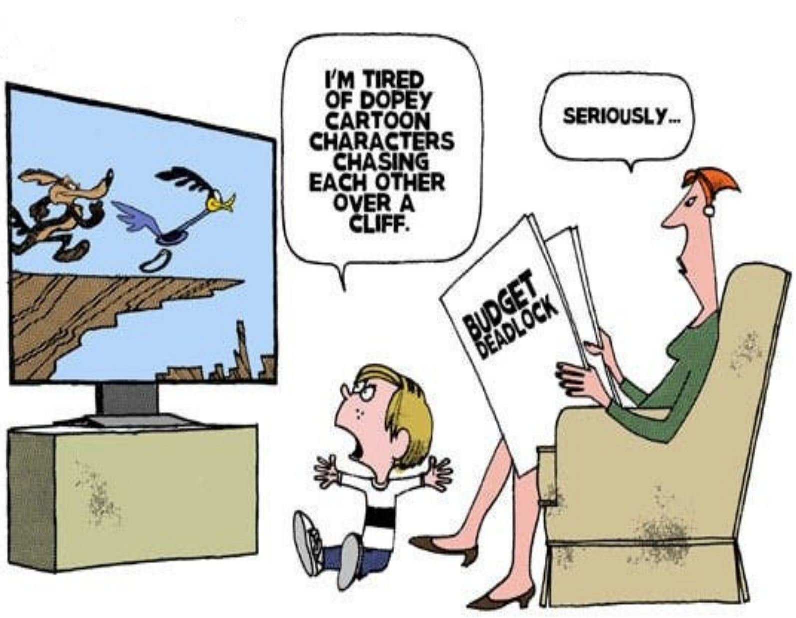
First Quarter 2013

Some Uncertainties Resolved

Last quarter we discussed the uncertainties that were overhanging the market. At that time there were unknowns regarding the election, plus tax and budget issues. The stock market swooned leading up to the election, but it eventually recovered once the ballots were counted. Again, the stock market dropped as the fiscal cliff went down to the wire; however, it promptly recovered right after the cliff deal closed. In the end, the stock market was largely unchanged (October 1 - January 2). Also, interest rates remained low. Was this gyration warranted or was it based on media hype stirring investor emotions?

Those who timed the stock market moves did well. Those whose timing was off by as little as one day significantly underperformed. Uncertain times such as we are now experiencing require caution and risk assessment, but that does not necessarily mean moving in and out of the stock market. In managing client accounts, we focus on longer-term trends, not periods of daily anxiety.

Going forward, we still have the debt ceiling debate and the sequestration resolution. These issues are currently being debated and could provide further market volatility, but we expect more normalized levels once they are resolved. Longer-term, we still face a deficit and rising debt problem. If these were to be handled in an economically sound manner, then the markets could improve. Based on past results, it is difficult to be overly optimistic; on the other hand there should be resolution of some of the critical issues.



On a sector level, the higher yielding utility and consumer staple stocks have not yet fully recovered their year-end drop on fears of a near-tripling of the dividend tax rate (15% to 43.4%). Tax rates did go up to 20% for high income earners, but for most remained at the Bush-level rates. So, the tax damage was not as great as some had expected. Therefore, these sec-

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GS Investments, Inc.
Largest Stock Holdings

12/31/2012

Securities	Pct.
Apple Computer	2.41%
Wells Fargo and Company	2.00%
Exxon Mobil Corporation	1.93%
Visa Incorporated	1.80%
International Business Machines	1.79%
iShares BRIC	1.75%
US Bancorporation	1.73%
Schwab Emerging Markets ETF	1.67%
McDonalds Corporation	1.61%
Williams Companies	1.58%
Microsoft Corporation	1.52%

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ECONOMIC FORECASTS	
	GDP Growth Though slowing in early '13, around 2% for the year
	Interest Rates Little change through mid-'13. 10-year T-notes at year-end, 2.25%
	Inflation Rising slightly this year, to about 2.3%
	Unemployment Falling gradually over '13, to around 7.5%
	Crude Oil Holding steady at $90-$95/bbl., at least through early spring
	Consumer Confidence Rising this winter; iffier by early spring

1 Kiplinger Letter, January 11, 2013.

tors could experience a price rebound barring a material increase in interest rates. That said, we are examining some fundamental changes facing electric utilities that could affect our holdings in this sub-group.

Economic and earnings results for the last quarter of 2012 are starting to be reported. From what we can glean for this period, the economy was slowing and earnings of many corporations began to soften. This could continue in the first quarter of 2013; however, as the year progresses, the economy could improve. Due to pent up demand, we expect that housing and autos will continue to strengthen in 2013. Capital spending by corporations may languish awaiting more concrete decisions by our federal government on a possible corporate tax overhaul. Lower corporate taxes rates could stimulate capital spending. Surely, energy infrastructure spending should continue to provide strength as domestic production continues to grow. Government spending for public infrastructure could be a positive force for the domestic economy as well. So, 2013 could be soft for the economy at the beginning of the year, but improve as the year progresses with areas of strength. Corporate earnings results could track a similar pattern. This is our best assessment, at this time.

Fiscal Cliff Avoided (impact beyond the headlines)

The compromise bill headline made the Bush tax cuts permanent for most individuals by keeping rates the same for those earning less than $400,000 ($450,000 married filing jointly) while increasing the top rate from 35% to 39.6%. However, there are a few nuances and possibly some misconceptions that we would like to spell out that go beyond the headlines.

"Obviously, the fiscal cliff shows that Washington is incompetent, unserious, and clueless. Obviously, taxpayers should send them more money."

Payroll Taxes – The 2001 and 2003 tax cuts were made permanent for most people, however, the 2% payroll tax holiday (2011-2012) was not extended. This means that everyone with a W-2 paycheck will see an increase of the Social Security tax as it reverts back to 6.2% from 4.2%. Therefore, 77% of taxpayers will see an increase in taxes in 2013.

Capital Gains and Dividend Taxes – Much has been made of the increase of the rate on capital gains and dividends from 15% to 20%. However, it is important to note that this rate only applies to taxable income over $400,000 ($450,000 married filing jointly). For most, the rate remains 15% and for filers in the 10% and 15% bracket, they still

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qualify for the special 0% rate.

Alternative Minimum Tax – This parallel tax system was targeted at the 155 high income taxpayers that paid no tax in 1966 due to a high amount of "tax preferences" (e.g. credits and deductions). The exemption was originally set at $30,000 in 1970 to target only the "super wealthy", but was never indexed for inflation. By 2001, Congress was passing a fix annually so that tens of millions of tax filers would not be caught by this alternative tax. Even so, several million people have paid this tax over the last several years and will continue to do so in the future. If you have not been subject to this tax in the past, it is likely not to impact you in the future as the new legislation increases the exemption and finally indexes it for inflation going forward.

Phase-out of personal exemptions (Adjusted Gross Income (AGI) starting at $250,000+) - Exemptions will be phased out at a rate of 2% for every $2,500 AGI above the threshold. For example, a family of 4 with $15,600 (4 x $3,900) of exemptions will lose that exemption entirely once they hit an income level of $425,000. This has the impact of increasing one's marginal tax rate by about 1% or up to $1,300 increase in taxes paid per exemption claimed.

Partial loss of itemized deductions (AGI starting at $250,000+) – Itemized deductions are reduced by 3% for each dollar of AGI over the AGI threshold levels. This effectively raises the marginal tax rate by 1.2% on earned and passive income and .6% on unearned income by broadening the taxable income base.

Medicare Surtaxes (AGI at $200,000+) – Finally, the Affordable Healthcare surtaxes passed in 2010 begin in 2013 at a rate of .9% on earned income and 3.8% on unearned income (e.g. capital gains, dividends, and passive investment income). These are new taxes in addition to the increases listed above.

Of note, the Medicare surtax thresholds were not indexed for inflation, so while they were targeted at only the wealthy, with just modest inflation, they will impact millions more taxpayers that have "middle income" wages in the future. That is, unless you believe Congress will fix this now important source of Medicare revenue in less than the 42 years it took to fix the Alternative Minimum Tax.

Natural Gas Bonanza

Technological advances in drilling have led to a dramatic increase in the supply of both oil and natural gas in the U.S. which has changed our energy position. In fact, the natural gas supply has increased so dramatically, that drilling has dropped off significantly as a glut has formed in the U.S. Importantly, the supply increase has resulted in a dramatic decline in price making us the world's low cost producer. This provides the U.S. with a

Notable Quotes

"The key to making money in stocks is not to get scared out of them."
Peter Lynch

"Rule No.1: Never lose money. Rule No.2: Never forget rule No.1."
Warren Buffett

"A market is the combined behavior of thousands of people responding to information, misinformation and whim."
Kenneth Chang

"Never invest in anything that eats or needs painting."
Billy Rose

"If all the economists were laid end to end, they'd never reach a conclusion."
George Bernard Shaw

"The stock market is filled with individuals who know the price of everything, but the value of nothing."
Philip Fisher

"Money can't buy you happiness but it does bring you a more pleasant form of misery."
Spike Milligan

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big export opportunity for the excess natural gas production, with the potential to boost our economy.

In order to export natural gas it must be converted into liquefied natural gas (LNG). This is done by placing it under pressure changing it to liquid form. This reduces the tank space needed for transport. When it is delivered, it can be turned back into natural gas and used for electric utility generation, heating and other uses. Think just of Asia, including China and Japan for demand opportunities. This could be a huge market opportunity for the United States, and it is currently being examined by our government for feasibility. If given the green light, there will be increased potential for pipelines, storage, processing and transportation. This is an exciting new development for our country, and it has both market and political implications.

Some have raised fears that if we begin to export natural gas, prices here will dramatically rise. We believe that any material increase in price will be met with additional production limiting any price increase for domestic consumption.

Some securities in our client portfolios should benefit from developments in the LNG industry, and we plan to keep monitoring them and the industry in our research.

"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 owners, Glenn H. Steinke, C.F.A., and John G. Steinke, M.B.A. and Greg Cunningham.

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 Ameriprise 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.