MarketView

First Quarter 2014

GS Investments

GS Investments, Inc. Largest Stock Holdings 12/31/2013	
Securities	**Pct.**
Wells Fargo and Company	2.30%
Visa Incorporated	2.01%
Exxon Mobil Corporation	2.00%
Dow Chemical Company	1.96%
Express Scripts Incorporated	1.83%
Honeywell International	1.82%
US Bancorporation	1.81%
Apple Incorporated	1.72%
Microsoft Corporation	1.69%
Berkshire Hathaway Class B	1.60%

2013: What a year it was

Last year the market turned in its best performance since 1997 with the Standard and Poor's 500 Index (S&P 500) returning a whopping 32.4%. 2013 was definitely a year to celebrate. It's safe to say that virtually no one in our business foresaw this kind of advance for the year. Why the dramatic and unexpected rise? Although the reasons are numerous, one of the largest factors can be found in the realization that many of the market's worst fears didn't come to fruition. Specifically: [1]

- The U.S. didn't default on its debt and budget compromises were reached during the year.
- China didn't experience a hard economic landing.
- Europe's debt crisis didn't result in an economic collapse abroad.
- While interest rates did jump from 1.5% in May to around 3% at year-end, they remain historically low, leaving stocks as the most favorable investment alternative for investors.

While the U.S. equity markets advanced to an all-time high, the benchmark 10-year rate nearly doubled during 2013. This led to negative returns in the bond markets and applied downward pressure on the real estate investment trusts (REITs), preferred stocks and emerging market stocks.

The rally in U.S. stocks in 2013 was broad-based although there was considerable divergence within the various sectors. Through mid-December, the best performing sector was health care, returning 34.1%. The consumer discretionary, telecom, and the utility sectors, on the other hand, had single-digit returns (see chart on the next page). Additionally, low-quality stocks, those ranked by Standard and Poor's as "C" or worse, significantly outperformed the overall indexes, producing returns nearly double the return of the market. Companies such as Fannie Mae and SuperValu, considered insolvent at the start of 2013, were both top 10 performers by year-end. Despite the rally however, the market (as of 12/12/13), was not overly expensive at roughly 14.5 times forward earnings; the historical average is 15 times. Assuming that interest rates remain somewhat subdued, corporate earnings may likely expand, translating into higher stock prices again in 2014. Time will tell.

It's a foreclosure notice from our bank – along with an application for a new credit card.

[1] Barron's, December 16, 2013

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Sector Snapshot

Only four sectors are beating the market this year, with consumer discretionary in the lead. Bond-proxy sectors have been dragging.

		Price Returns			
S&P 500 Sector	**P/E***	**2013****	**2012**	**2011**	**2010**
Consumer Disc	16.9	0.4	0.2	0.0	0.3
Healthcare	16.0	34.1	15.2	10.2	0.7
Industrials	15.7	30.3	12.5	-2.9	23.9
Financials	12.9	28.2	26.3	-18.4	10.8
Info Technology	13.4	20.3	13.1	1.3	9.1
Consumer Staples	16.6	20.3	7.5	10.5	10.7
Energy	12.6	17.4	2.3	2.8	17.9
Materials	15.3	15.8	12.2	-11.6	19.9
Utilities	14.8	6.6	-2.9	14.8	0.9
Telecom	14.0	3.6	12.5	0.8	12.3
S&P 500	**14.5**	**24.5**	**13.4**	**0.0**	**12.8**

* Based on 2014 analyst's earnings estimates. ** Through 12/12.

Source: Bloomberg

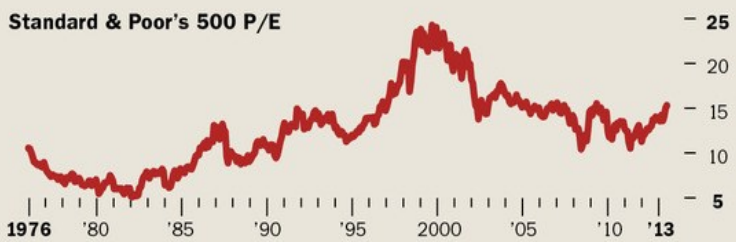
Of course, risks remain. The timing and severity of the Federal Reserve's "tapering," a world "event," dramatic healthcare cost increases borne by the U.S consumer, etc. could all affect the economy and, subsequently, stock prices going forward. However, we see the economy being bolstered by the following:

- Rising corporate profits which prompted many U.S. companies to increase their dividend payouts yet again. Arguably, this made U.S. stocks even more attractive when compared to many other investment alternatives.
- Lower energy costs, derived from the domestic boom in shale oil and gas, gave an additional boost to the domestic economy by providing U.S. consumers with additional dollars for spending.
- Cleaner household balance sheets, as U.S. consumers continue to reduce their collective debt.

Most who know us understand that we are optimistic by nature. Not blindly so, however. We continue to believe that there are opportunities in the stock and bond markets. Specifically, we see a good environment for quality growth stocks that appear undervalued relative to the market. As always, we will ensure appropriate asset allocation and security selection as a key to our client's long-term financial health. We look forward to another solid year in 2014.

A "Reasonable" Valuation

Stocks are neither cheap nor expensive on a historical basis, as measured by price to coming-12-month earnings. The market's P/E has risen steadily this year to about 15 times next year's estimated earnings for the S&P 500.



Source: Goldman Sachs

The true "unemployment" rate?

Much attention during the past election cycle was given to the unemployment rate, now at 6.7%. Does this truly reflect the unemployment situation in this country? Some say yes, crediting the Administration and its multiple stimulus efforts for

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"If the Fed can loosen it's money supply, why can't you?"

bringing the rate down from its most-recent 2009 high of 9.6%. A closer look however, reveals two interesting metrics, both of which more accurately reflect the "jobless" nature of the current economy. The first is the Bureau of Labor statistics U-6 measure, a measure that addresses "temporary" and "underemployed" workers. As of November 2013, the rate was 13.2%, a number that has hardly moved since the collapse of 2009.

The second measure is the labor force participation rate. This measures the percentage of working-age persons in an economy who are either 1) employed or 2) are unemployed but looking for a job. Curiously, this rate has declined by the same amount that the "unemployment" rate has declined since 2009, 3.2%. Currently at 62.8%, the rate is at a 37 year low, leaving many to question the strength and sustainability of the recovery. 2

It's A Trust Thing

People trust their financial advisor more than their primary doctor, according to a recent survey of investors by John Hancock Financial.

When asked to rate how much they trusted professionals such as financial advisors, primary doctors, accountants, contractors/handymen and real estate agents, 84% of those surveyed said they strongly trusted their advisors. That was followed by doctors (79%), accountants (74%), contractors (52%) and real estate agents (43%).

When the respondents were asked what was most likely to win their trust, 54% of them said they wanted advisors who offered clear explanations of investment recommendations. Fifty-four percent also said that advisors earned their trust by being knowledgeable about prod-

Notable Quotes

"Money will buy a fine dog, but only kindness will make him wag his tail."
Anonymous

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

"Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investment is an effort, which should be successful, to prevent a lot of money from becoming a little."
Fred Schwed Jr.

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."
Robert G. Allen

2 InvestmentNews, January 6, 2014

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ucts and trends, while 51% said the advisor won trust by disclosing how he or she was compensated. Forty-nine percent said that the most important trust factor was that advisors quickly answer questions.

It was much less important that an advisor recommended by friends or by family (only 21% of the respondents said it was), or that the advisor had user-friendly tools and calculators (only 16% chose this), had an informative web site (only 11%), or was involved in the local community (only 5%). Another 13% said bad investment advice caused them to lose trust, while 12% said the advisor lacked a personal approach. On the flip side, 25% of the respondents said that the biggest reason they lost trust was that the advisor was hard to contact. The John Hancock Trust Survey was conducted in April and polled 1,005 investors with at least $100,000 in household income and $200,000 in assets.

Clients, be aware

Finally, we would like to make our clients aware of an increase in the level of scrutiny the federal regulators will be giving to account withdrawals. In an effort to address fraud concerns, more information and/or additional signatures may be required to release funds from client accounts.

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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., 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 20 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 office 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 Prior to joining GS Investments, Greg spent 15 years at Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Here 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.