MarketView

First Quarter 2015

GS Investments

ANOTHER GOOD YEAR FOR GSI ACCOUNTS

Typically we shy away from self-promotion as we know that the markets can deliver instantaneous humility. We do appreciate "kind words" however, especially when they are given by one of our clients. We thought we would share comments recently received from one of our clients as it nicely summarizes 2014 for most of our clients. He writes…"Looking at my Schwab One account, I see I've made plenty this year on capital gains, which is great."..."Besides reaping lots of great gains this year, I see that I have very little in that (taxable) account that is in the red (loss). In summary, you folks are doing a great job for me! Thank you!!"

2014 was another good year for GSI accounts. For the year, the average GSI client saw their account equities best the S&P 500. During the same period, the average total account return was well ahead of its associated benchmark. Both returns were achieved after fees. Although we were aware that our accounts were doing well this year, a December 27th, Intelligent Investor column in the Wall Street Journal put things in perspective. According to the article, roughly 79% of the US stock mutual funds failed to meet their market benchmarks, through December 19th.(1) Given the outperformance that the average GSI client has seen this year, we can conclude that 2014 has been another good year indeed.

GS Investments, Inc.
Largest Stock Holdings
12/31/2014

Securities	Pct.
Apple Incorporated	2.14%
Wells Fargo and Company	2.13%
Berkshire Hathaway Class B	2.11%
VISA Incorporated	1.94%
Walt Disney Company	1.84%
Honeywell International	1.83%
Intel Corporation	1.82%
Express Scripts Incorporated	1.81%
Boeing Company	1.73%
Dow Chemical Company	1.72%

MORE THAN PERFORMANCE. TAXES MATTER TOO

Performance, although important, is not the only factor to be considered when managing client accounts. As our taxable account holders know, the extended market run-up has left little in the way of losses in their accounts. While gains in taxable accounts are generally considered a "nice problem to have," generating large amounts of capital gains, even though they may be long-term, often draws the reaction of many of our clients. In some cases, realizing capital gains can't be helped. This is especially true for those clients who require distributions or need to have their accounts re-balanced between asset classes while maintaining diversification. In other accounts however, we may have a bit more latitude and flexibility to keep the gains to a minimum. Part of this is due to managing each account according to its specific goals and objectives and because of our use of individual securities instead of mutual funds or exchange-traded funds. In any case, solid, tax-efficient returns and superior client service are all things that GSI clients have come to expect and we seek to continue to provide. For those invested in mutual funds and not individual securities, 2014 may have been frustrating. According to the

1 Wall Street Journal, Intelligent Investor, December 27, 2014

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previously-mentioned Wall Street Journal column, we find that while underperforming, many mutual funds also racked-up large capital gains for their shareholders. According to Mark Wilson, Chief Investment Officer of the Investment Advisory website CapGainsValet.com, at least 500 mutual funds have distributed 10% or more of their net assets as capital gains and 64 have distributed over 20%, (2) resulting in a large tax bill. The point to be made here is that our client accounts will consistently be managed according to their goals and objectives, tax consequences included. Those individuals who elect to "go it alone," using mutual funds and/or exchange-traded funds, are left to the mercy of the funds for tax-planning purposes.

ADVISOR OR BROKER: A PRIMARY DIFFERENCE?

While attending a holiday social function, I was asked what I do for a living. "I am an Registered Investment Advisor," I responded. "Is that a broker" the person asked? "No," I answered. "What's the difference" asked the individual? As I responded, it became clear that this should be addressed in our upcoming newsletter.

For those of you who don't know, A broker is defined as any person engaged in the business of effecting transactions (buying and selling securities) for the accounts of others. Brokers have many different titles these days with some of the more common being: wealth manager, wealth advisor, investment consultant, or financial advisor. An RIA advisor, on the other hand, offers investment advice for a fee and is **not** paid on the sale or purchase of securities. What also distinguishes an RIA from other types of firms is that all managed assets are "held away" with a third-party custodian such as Fidelity, Schwab, Pershing, TD Ameritrade, etc.. What this means for the investor is that their money is safely in the hands of a multi-billion dollar entity that is removed from his financial advisor, creating a natural system of checks and balances.

Most importantly, an RIA has a "**fiduciary duty**" to his clients; meaning that he has an obligation to provide proper investment advice and always act in the **best** interests of his clients. While this sounds like a "no brainer", brokers are held to a lower "**suitability**" standard meaning that all investments made on behalf of the client must be suitable for the client at the time they are purchased. In many cases these may be the firm's own products (e.g. mutual funds/annuities) or products that the brokerage firm receives a portion of the revenue. What this means is that brokers may sell products that may not be the best option for the client, nor do they necessarily continue to remain suitable in instances where the client's situation changes.

Simply put, investment advisors like ourselves, have a legal obligation to act at all times for the sole benefit and interest of the client. Any advice, product or service offered must answer the question "Is this (the action in question) in the best interest of the client?" If the answer is "No," then it

2 Wall Street Journal, When funds insult investors, December 27-28, 2014

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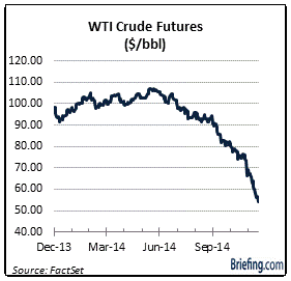
cannot be performed. It is against the law.

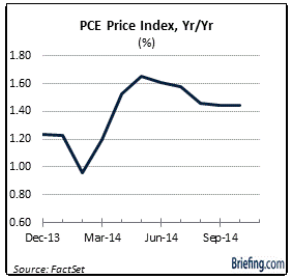
Finally, Investment advisors who manage over $100 million (like ourselves), are regulated by the Securities and Exchange Commission (SEC). Those under $100 million are regulated by the state in which they are domiciled. We believe SEC regulation provides better protection for clients as state regulation can vary.

2015 OUTLOOK

Overall, Wall Street is cautiously optimistic about markets in 2015. We share in their "cautious" optimism.



The first piece of the puzzle is the dramatic decline in the price of oil. Since mid-2014, the price of oil has declined from $107/bbl to a recent low of $48/bbl. According to Julian Jessop, Chief Economist at the Global Economist, a $40 drop in the price of oil/bbl equals $1.3 trillion added to U.S. GDP. To date, we've exceeded the $40 by a large margin.



The second piece of the puzzle is inflation. As is evident on the chart to right, inflation, as measured by the Personal Consumption Expenditure Price (PCE) index, is relatively flat and may be headed lower, given the decline in the price of oil.

The third piece of the puzzle constitutes short-term interest rates and is seen on the chart to the left. Although the Federal Reserve Board has indicated they will begin tightening short-term rates in the future, we believe that tightening will not begin immediately and will be done gradually, over time; this also bodes well for stocks.

Taken together, all of these factors argue for continued multiple expansion going forward. As is evident in the chart to the right,

NOTABLE QUOTES

"Money, if it does not bring you happiness, will at least help you be miserable in comfort."

Helen Gurley Brown

"Know what you own, and know why you own it."

Peter Lynch

"Nowadays, people know the price of everything and the value of nothing."

Oscar Wilde

"I never attempt to make money on the stock market. I buy on the assumption that they could close the market the next day and not reopen it for five years."

Warren Buffet

"Be quick in cutting your loses but not profits."

Abhishek Shukla

"I'm only rich because I know when I'm wrong…I basically have survived by recognizing my mistakes."

George Soros

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historic P/E multiples, on a forward-looking basis, are not excessive on a historical basis.

Regardless, the markets rarely move in a straight line. As time moves on and the market valuation increases, so will volatility. For this reason, we continue to remind our clients to take these market movements in stride and focus on making the most of opportunities as they present themselves.

Happy New Year and thanks for your continued business!

"Our greatest compliment is your referral."

GS Investments 20 Years & Growing
333 South 7th St, Suite 3060
Minneapolis, Minnesota 55402
Ph (612) 371-0590 Fax (612) 371-9869
john@gsinvestments.com glenn@gsinvestments.com
greg@gsinvestments.com sheri@gsinvestments.com

GSI Tenets

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.

Client Communication

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.