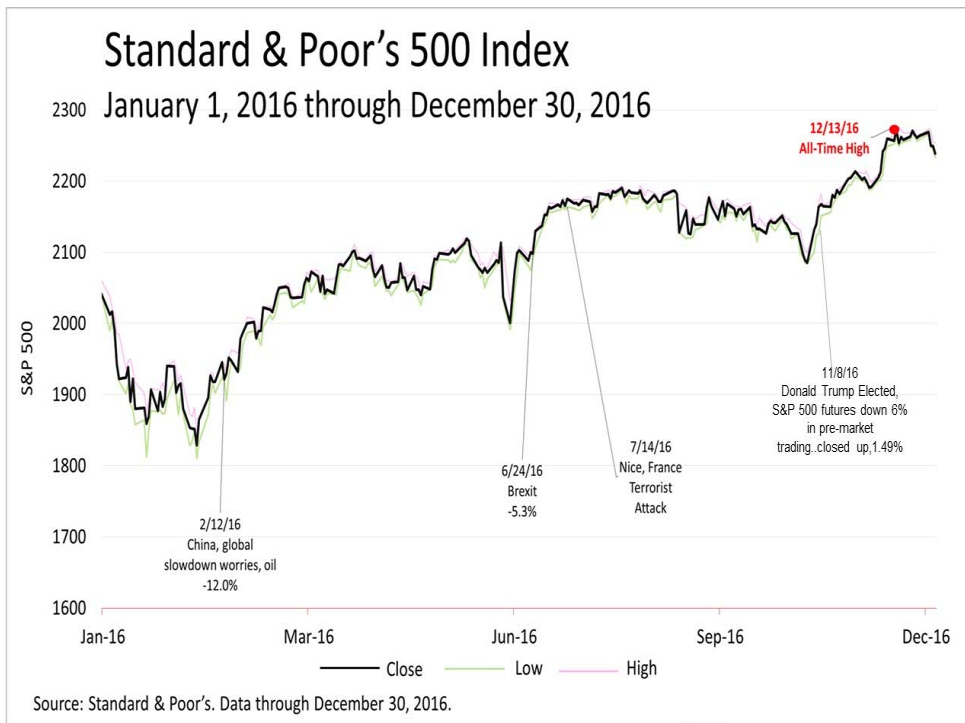


MARKETVIEW

FIRST QUARTER 2017



2016 in Review

In many ways, the beginning and end of 2016 were mirror images. The stock market and interest rates dove at the beginning of the year and surged at the end. As the year began, financial markets were dominated by fears of recession, deflation, uncertainty over the elections and potentially higher interest rates. This environment produced a sense of unease, resulting in a 10% drop in equity markets by early February. From that point, “dovish” global central bank policies, improving liquidity and a stronger labor market, boosted economic growth modestly. As corporate earnings began to improve, stock market indexes rose from their February lows, and rallied strongly following the presidential election.

Similarly, the yield on the 10-year U.S. Treasury bottomed at 1.37% (July 8) on the heels of the Brexit vote, climbing 108 basis points to 2.45% by year-end as expectations for higher economic growth took hold. With the Federal Reserve’s decision to raise interest rates at its December meeting (and guiding 3 more increases in 2017), one can argue that the July low may likely mark the end to what has been a 35-year bull market for bonds.

GS INVESTMENTS, INC.

LARGEST STOCK HOLDINGS

12/31/2016

<u>SECURITIES</u>	<u>PCT.</u>
WELLS FARGO AND COMPANY	3.14%
BERKSHIRE HATHAWAY CLASS B	3.12%
BOEING COMPANY	3.02%
HONEYWELL INTERNATIONAL	3.01%
THE WALT DISNEY COMPANY	2.94%
PEPSICO INCORPORATED	2.93%
MICROSOFT CORPORATION	2.92%
VISA INCORPORATED	2.91%
APPLE INCORPORATED	2.87%
HOME DEPOT INCORPORATED	2.83%

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NOTABLE PRESIDENTIAL QUOTES

“If tolerance isn’t universally applied, then it isn’t tolerance at all.”

Mike Adams

“The stock market is a device for transferring money from the impatient to the patient.”

Warren Buffet

“In the short-run, the market is a voting machine. In the long-run, it is a weighing machine.”

Benjamin Graham

“The key to making money in the stocks is not to get scared out of them.”

Peter Lynch

“No price is ever too low for a bear or too high for a bull.”

Proverb

“Investors should purchase stocks like they do groceries—not like they purchase perfume.”

Benjamin Graham

If we look back two years to the beginning of 2015, or roughly the start of our long election cycle, the S&P was up only 1.3% from 12/31/14 through the week before the election. Since that point, the market surged 7.4%, through the end of 2016, representing about 85% of all the capital gains realized in the market over the last two years. This was especially surprising given that the majority of market prognosticators expected a severe decline if Trump won. Fears turned to hope based on the expectations for lower tax rates and reduced corporate regulations. Only time will tell if this increased optimism will result in favorable economic policy changes.

Yes, 2016 was truly a year of change, both here and abroad. Together with the Trump election, the Brexit vote, and the Italian constitutional referendum, one can argue that the world is moving away from globalization, toward a more nationalistic and protectionist construct.

A Nation/World Divided

2016 also marked a year of supreme division and general intolerance, one that has led to a deeply divided nation. From people shouting one another down in demeaning fashion to individuals committing violent acts or vandalizing property, many of us have never seen this country with this level of intolerance or division amongst its citizenry. Rational conversation, together with respectful disagreement and debate, have been replaced by “safe spaces,” personal insults, racial accusations and an overall lack of respect for one another. While 2017 represents a year of change and opportunity, the divisions along political, racial, religious, gender and socio-economic lines are deep and contentious. It is our hope that 2017 represents better times ahead, both on human and economic level. Perhaps reasonable people, working toward common goals and objectives, can build a better, more cooperative society going forward. This “rising tide” would certainly lift all boats.

2017, a Year of Transition

Although we have never claimed to own a “crystal ball,” we do think that 2017 may likely be a year of transition. In particular, we cite the likely possibilities in the chart on page 3.



(Continued on page 3)

MARKETVIEW

FIRST QUARTER 2017



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FROM	To
Economic stimulus driven by monetary policy	Economic stimulus driven by fiscal policy
A world moving toward globalization	A world moving toward nationalism and protectionism
Fears of stagnant growth and deflation	Optimism regarding increased wages and growth
Investors primarily interested in safety of principal and reduced risk	Investors interested in greater returns, despite increased risk exposure and market volatility
A market environment in which all boats are lifted with the rising tide	A market environment where selectivity is critical

Based on this, we expect the following as likely outcomes:

- All in all, we expect to see modestly accelerating economic growth in the U.S., leading to higher corporate earnings and, likely, higher equity prices, both here and abroad.
- While we see a reasonable market for stocks, we believe that upward pressure on both wages and inflation, may cause the bond market to struggle.
- All of this suggests that 2017 could be a year in which markets become more dynamic and divergent, placing a premium on asset allocation and security selection.
- 2017 may finally answer the long-standing question of whether the stock market advance of the past few years has been the result of dovish monetary policy stimulus or the result of sustained corporate profit growth. If the answer is the former, equity markets will likely sell-off under the weight of rising interest rates. If the answer is the latter, which we believe it is, the equity markets have more room to grow.

Moving Forward

From time to time, it is helpful to remind investors, while we fully understand the importance of principal preservation, it is not possible to eliminate all risk without sacrificing a commensurate amount of return. By trying to avoid one peril, the investor is often left more vulnerable to others.



(Continued on page 4)

MARKETVIEW

FIRST QUARTER 2017



(Continued from page 3)

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It is our belief that, through proper diversification, investors should be adequately protected from a variety of risks, thus lowering the chances that any single threat will devastate his/her portfolio. We wish you the best in the new year.



"I'm not interested in minimum risk. I want long term gains without risk."



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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 24 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 25 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.