MARKETVIEW

FIRST QUARTER 2018

GS INVESTMENTS

A RISING MARKET LIFTS ALL PORTFOLIOS

From the end of 2014 to the week before the 2016 election, the stock market barely made any positive gains. Since the election, the markets have continued on a nearly uninterrupted rise. You may love Trump, or hate him. You might give him credit for the market's rise, or none at all. One thing is certain, however, if you own a portfolio of stocks, over the last 14 months, you have benefitted.

Specifically, the Dow Jones Industrial Average (DJIA) has advanced nearly 41.3% and the Standard and Poor's 500 Index (S&P 500) has moved up 31.3%; this is in spite of the overwhelmingly negative media coverage that has left many with a feeling that the sky is just about to fall.

According to a recent study by the Center for Retirement Research at Boston College, 42.5 million households own some type of 401k or IRA. The amount in these accounts totaled $13.5 trillion at the end of 2016. Furthermore, Gallup News reports that 54% adults in the U.S. are invested in the market. Whether you feel better or worse about the political direction of the country since November of 2016, millions of Americans feel pretty good about the progress they have made in their account values since that time.

For those insisting that the market is overpriced (based on the current forward-looking S&P 500 multiple of 17.5x), we would respond by saying that it depends on the period of time in question. The 12-month, forward-looking P/E for the S&P 500 over the past 5 years is 15.2x; for the past 10 years, it is 14.4x. For the past 20-years however, it is 17.2x. Certainly, one can make the case that the market is fully-priced, but perhaps not as expensive as some in the media would have you believe. Also supportive of this view is that interest rates remain low relative to past levels. Yes, interest rates are trending upward, but gradually, and unless there is an unexpected rise in inflation, they should continue their gradual path upward.

GS INVESTMENTS, INC.

LARGEST STOCK HOLDINGS

12/31/2017

SECURITIES	PCT.
BOEING COMPANY	2.43%
APPLE INCORPORATED	2.34%
VISA INCORPORATED	2.23%
BERKSHIRE HATHAWAY CLASS B	2.22%
HOME DEPOT INCORPORATED	2.14%
MICROSOFT INCORPORATED	2.12%
HONEYWELL INTERNATIONAL	2.10%
INTEL CORPORATION	1.94%
PEPSICO INCORPORATED	1.92%
WALT DISNEY COMPANY	1.84%

TO PARE OR NOT TO PARE

This is the question in the minds of many clients. It is true that we have had a historic advance since the market lows of March, 2009. It is also true that the market, as measured by the Standard and Poor's 500 may be fully priced. It is also true that many of our clients have

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"full" equity allocations in their accounts; some of this has been driven by the strength of the market. Some of this has also been driven by the lack of investment alternatives as bonds could be risky if the increase in interest rates accelerates.

With an expanding economy, one will likely see continued wage growth and rising interest rates, both short and long-term. In this case, stocks will eventually top out, giving us the opportunity to rebalance accounts in line with more traditional asset allocation parameters and to fully restore bond positions within client accounts.

We understand investor concerns regarding the continued advance of the global stock markets. With that said, we don't believe that selling stocks en masse at this time is wise. Rather, we look to a gradual rebalancing of client accounts as the market and interest rates dictate. In short, we pose a gentle reminder that investment management is a process, not a series of events. Patience and discipline will win the day.

Economic Resurgence in 2017

There are several tailwinds that should help propel the economy forward which will help company revenue and earnings growth. Increases in earnings should support higher stock prices.

- $5 trillion in new wealth created. A portion of this makes its way into spending.
- Consumer confidence is at an all-time high.
- 2 consecutive quarters of 3%+ GDP growth, not seen in roughly 10 years.
- 1.8 million more jobs.
- Unemployment at a 17-year low (4.1%)
- An increase in growth world-wide

In addition to these tailwinds, there are additional drivers of growth for 2018. We see a less onerous regulatory environment. The Competitive Enterprise Institute estimates that the cost to

Notable Tax-Related Quotes

"We contend that for a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."
Winston S. Churchill

"You can't love jobs but hate job creators."
Arthur Laffer

"One thing is clear: The Founding Fathers never intended a nation where citizens would pay nearly half of everything they earn to the government."
Ron Paul

"The power to tax is the power to destroy."
John Marshall

"Death and taxes are unsolved engineering problems"
Romana Machado

"I find it insane to say, "Work hard," when the harder you work, the more you pay in taxes... Crazy."
Ziad K. Abdelnour

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comply with government regulations cost the U.S. economy almost $2 trillion annually. Certainly, many of these are important for protecting the environment, our safety, our health and financial stability. However, many of these tens of thousands of regulations are of questionable value. Anyone who owns a business has first hand knowledge of this. Second, in the weeks since the tax bill was finalized, hundreds of companies have announced special bonuses, pay increases, and hiring increases. This will add billions of dollars into the pockets of millions of Americans. Finally, the tax bill will modestly help individuals with a relatively larger impact on businesses. Consumers will likely spend more and businesses are very incented to bring overseas money home and invest in the U.S. The head of Bank America Equity Strategy estimates the tax bill could add 15% to corporate profits from lower rates and stock buy-backs.

Tax Law Change; And the Winner Is…

One news outlet proclaims this is a tax cut for the rich, another says it is for the middle class, as 91% of that cohort will get an average tax break of $2,000. Sometimes it seems like competing stations are reporting from different planets. We will provide some hard figures and let you decide. On the final bill, according to the Joint Committee on Taxation, 77% of the benefits ($1.1 trillion) goes to individuals and 23% ($330 billion) goes to corporations. The corporate tax rate cuts are substantial, declining from 35% to 21%. However, the large rate cuts, projected to save $1.35 trillion, are offset by $695 billion in closed loopholes, a reduced tax of $324 billion on overseas cash and assets from prior year overseas earnings. Many people, on both sides of the political divide, felt this money would never come home to face the prior steep 35% rate (virtually every other country in the world charges 0% on overseas profits). It is important to note that the corporate tax changes are permanent.

On the individual side, the rate cuts are more modest and are also partially offset by a reduction in the number and amount of deductions available. Also of note, in order to fit within the budget parameters, the individual tax cuts expire in 2026. The same was true of the Bush-era tax cuts. However, these cuts were eventually made permanent for all but the top 5%. According to the center to left leaning Brookings Institute, 81% of individuals will get a tax cut (91% in the middle class). The average for a family of four earning $73,000 will receive a break of $2,000. About 5% of individuals will see their tax bill rise modestly, mostly very high income earners in high tax states (Minnesota included). Before you begin feeling too sorry for the rich, they also tend to own a high portion of common stock and will benefit from the continued corporate tax breaks. The top 1% owns 83% of stocks in taxable accounts (excluding IRA, 401k, pension, foundation, and other corporate owned accounts). Since the individual tax cuts expire in 2026, the claim is being made that the top 1% *eventually* receive 83% of the overall reduced taxable benefits starting in 2027. We will see. In sum, both sides claims are accurate, just not complete.

We thought it might also be helpful to comment on how the new tax law will be applied to investments that are taxable. Kiplinger's tax

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letter gives the following information:

Tax rates on long-term capital gains and qualified dividends do not change. Currently (2017), your capital gains and dividend rate depends on your tax bracket. But with the bracket changes, Congress decided to set income thresholds instead. The 0% rate will continue to apply for taxpayers with taxable income under $36,800 on single-filed returns and $77,200 on joint returns. The 20% rate starts at $425,800 for singles and $479,000 for joint filers. The 15% rate applies for filers with incomes between those break points. The 3.8% surtax on net investment income remains, kicking in for single people with modified AGI over $200,000; $250,000 for marrieds.

Finally, a comment on IRA minimum distributions may be helpful. Schwab monthly statements show the Required Minimum Distribution for the year. It may be tax efficient to take only the required minimum distribution from an IRA, using capital gains and dividend income from taxable accounts to supplement remaining needs. See your CPA.

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20 Years & Growing

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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.