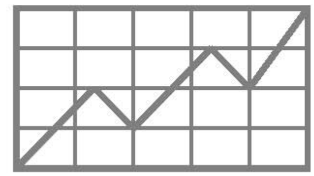
GSI Market View

2nd Quarter 1995



First quarter market results were strong but what's next?

Including interest or dividends, the popular averages provided positive returns of about *10% for stocks* and *5% for bonds*. Fortunately, our account categories *exceeded these returns* and continued to achieve superior results as they did for the entire year, 1994. The first quarter saw GSI equities approach *13%,* with our fixed income securities returning nearly *6%.*

The average mutual fund *continued to struggle* in the first quarter of 1995 as it did in 1994. On average, equity mutual funds returned 7.2%, while bond funds returned 4 %. These numbers were distinctly lower than the popular averages and far below our results.

As was true at the beginning of this year, investors find issues to worry about.

The main concern now seems to be related to our *sagging dollar* and the potential for higher interest rates. A few words should be devoted to these issues, because the health of the U.S. economy and its securities markets are importantly influenced by the level of interest rates.

There are those who feel more increases in short interest rates are necessary, in order to defend the dollar. Recently, the controversial head of the International Monetary Fund chastised the U.S. for not moving to raise short term interest rates again in defense of the dollar.

What one must consider is that although our dollar has slumped, its decline has been mostly against major European currencies and the Japanese yen, not against Latin American and Canadian currencies where a large portion of our trading is done. *So, the urgency to defend the dollar by raising short term interest rates may not be as great as it seems.*

Additionally, the solution to a stronger dollar is to *reduce government spending* (fiscal policy*) not raise interest rates* (monetary policy) when our economy is weakening. Unfortunately, we have leaned too often on monetary policy to correct dollar problems. From recent comments made by Fed Chairman Allen Greenspan......

... the Federal Reserve seems to be expecting the Congress and the Administration to deal with the dollar rather than take this burden on as its responsibility.

The job of the Federal Reserve is to *control inflation* and to *foster balanced economic growth* using its power to change interest rates. If they are forced to raise rates in response to problems with the dollar, our economy and those of our American trading partners may slow. This may force our composite economies into *recession*. That is a major concern of investors.

A slowing economy, possibly turning into a recession, may result in lower corporate earnings.

This could cause stock prices to decline. Bonds would also go down in price due to higher interest rates. This seems to be the focus of the markets now, and pundits revisit these concerns daily throughout the media.

We strongly feel that *long term investors should avoid concentrating on the daily "noise" of the media*, focusing on the positive trends that are continuing to influence our marketplace. By doing this, we will likely achieve good investment results over the long term.

A positive outlook for long term investors.

First, *the long term trend in interest rates seems to be continuing down*. Surely, short term interest rates are high now, but as our economy slows, they will come down. Long term interest rates could move down to the *6%* range again, if inflation remains under control. So, for the longer term, interest bearing securities might be considered attractive.

Second, *common stock prices seem to be reasonable, even at these levels.* Recently Value Line calculated the price/earnings ratio on its average stock at *14.2X*. Historically, this is not excessive.

Third, corporate America is in an excellent competitive position. This is due to the lower U.S. dollar, greatly improved efficiency and a technological edge.

Fourth, the financial condition of American corporations has improved due to restructuring and strong earnings.

Finally, there is the potential for a *capital gains tax cut*. This would benefit common stock investors. It may be especially beneficial for those investors holding shares of smaller corporations with strong growth prospects.

What's next?

Near term, no one really knows, *but for the long term investor there is opportunity*. In managing our accounts, *we will try to capture that opportunity*.

GS Investments, Inc. 920
Second Avenue South, Suite 600
Kinnard Financial Center
Minneapolis, MN 55402 (612)
371-0590