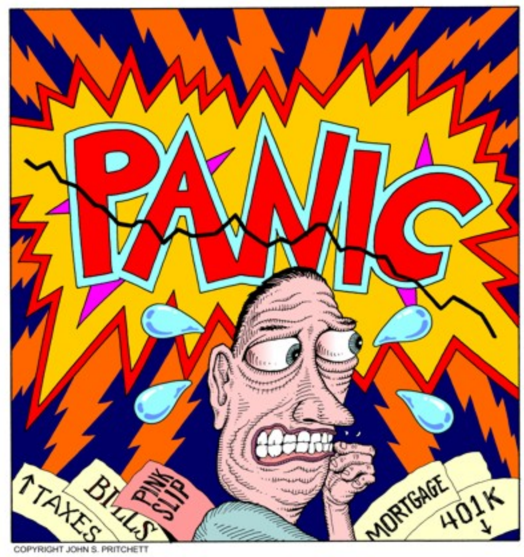
GS

INVESTMENTS, INC.
www.gsinvestments.com
612-371-0590

# MarketView

*Second Quarter 2009*

### *Will the Dikes Hold?*




There was anxiety in Fargo, ND and Moorhead, MN recently when the Red River rose sharply due to heavy winter snows melting quickly from unusually warm March weather. Residents feared the north-flowing river would rise above hastily built sandbag dykes causing flooding of the flat landmass making up the cities. Interstate #94 was temporarily closed as were colleges in both Fargo and its neighboring city, Moorhead. Fortunately the sandbag-formed dikes did hold following a river peak near the critical point, and many buildings and residences were saved. It was a harrowing time for occupants of these twin cities.

One can suggest that the financial markets have endured a similar pattern to the flood experienced in Fargo and Moorhead. The Red River might be thought of as our nation's economy falling off a cliff in late 2008, and the sandbags might be thought of as all the programs established by the Treasury, the Federal Reserve and the FDIC. Whether these programs will hold the economy from slipping into a depression or simply slow the decline with the end result being a lengthy recession is yet to be known. We think the latter has the greatest probability.

**GS Investments, Inc.**
**Largest Stock Holdings**

**3/31/2009**

| **Securities** | **Pct.** |
|---|---|
| Apple Computer Incorporated | 2.22% |
| McDonald's Corporation | 2.17% |
| Wal-Mart Stores Incorporated | 1.92% |
| Qualcomm Incorporated | 1.84% |
| Johnson and Johnson Company | 1.79% |
| PepsiCo Incorporated | 1.78% |
| Best Buy Corporation | 1.77% |
| iShares Emerging Markets | 1.75% |
| Cisco Systems Incorporated | 1.72% |
| Proctor and Gamble and Company | 1.70% |

### *Tarp and a lot More*

Financial professionals tend to create new words and acronyms for their programs, and this is especially true of recent actions by the authorities.

It seems as if every federal government organization has its "oar in the water" this time, including our expressive congress.

As expected, the first organization to jump into the fray was the Federal Reserve lowering interest rates to nearly zero, lifting insured deposits to $250,000 and insuring money market funds. Then, the Treasury (under Bush) came along with TARP (Troubled Asset Relief Program) which was initially intended to buy up toxic assets but was switched to help improve capital po-

*(Continued on page 2)*

*(Continued from page 1)*

sitions of banks and other "too-big-to-fail" corporations---think AIG and General Motors.

Not to be outdone or left behind was the new administration and congress introducing a new stimulus plan focusing on health care education and energy with some infrastructure funding. Newly appointed Treasury Secretary Geithner finally introduced the Financial Stability plan which includes:

- A "stress test" for banks.
- An expansion of the Federal Reserve's Term Asset Backed Securities Loan Facil ity (TALF).
- A Public-Private Investment Fund to remove the toxic assets from the banks.

It is understandable if an ordinary person glazes over when trying to make sense of all these programs and their effect on our economy. All we can do is hope that they will help our economy emerge from its free fall and stabilize. We may and will criticize some of the actions being taken, but at least there is a concerted effort being made by the authorities. Needless to say changes are in the wind, and investment strategies must be shifted, when needed, to meet the challenges of the future.

One shift that we have made during this tumultuous market time is to place a greater emphasis on dividend-paying stocks. Studies have shown that an important part of a stock's total return is from its dividend payment. However, there are exceptions in portfolios we manage. As an example, our largest stock holding is Apple Computer, and it does not pay a dividend. We believe this company has attraction despite the fact that it does not pay a dividend.

## Notable Quotes

"If stupidity got us into this mess, why can't it get us out?"

*Will Rogers*

"There is only one social responsibility of business - to use its resources and engage in activities designed to increase its profits without deception or fraud."

*Milton Friedman*

"People who leave Washington D.C. do so by way of the box - ballot or coffin."

*Claiborne Pell*

"In statesmanship get formalities right, never mind about the moralities."

*Mark Twain*

It is important that dividend paying stocks continue to pay their dividends, hopefully increasing them over time. One example of such a stock is IBM. IBM has had an excellent history of dividend payment and increase.

The difficulty lies with stocks that either eliminate or reduce their dividends. A recent Standard & Poor's report stated that a record number of firms cut their dividend in the first quarter of this year. Notable in this regard were the banks. We continue to hold some bank stocks that cut their dividends sharply in the first quarter. Reasons for the cuts were to satisfy government requirements and to raise capital. It was not pleasant to witness these cuts, but it is our belief that higher dividend payments of banks we own will be restored as soon as possible after TARP funds are returned to the government.


"SIX WEEKS ON THE JOB! HAS IT BEEN THAT LONG ALREADY?"

Another shift that has been made in some portfolios is the pur-

*(Continued on page 3)*

*(Continued from page 2)*

chase of Treasury Inflation Protected Securities (TIPS) With all of the stimulation put in place, we feel there is risk in higher rates of inflation---not necessarily in the near-term but in the distant future.

As for international common stocks, we have focused on emerging and BRIC (Brazil, Russia, India and China) countries. We feel it will take more time for European countries to recover and when they do, growth will be slower than emerging and BRIC countries.

We continue to stagger maturities in bond holdings in balanced portfolios. Municipal bonds appear attractive as long as they are GO's (general obligations of communities and states based on tax revenues). Also, we want them to be investment grade (Baa or higher) without insurance support. During the past year it has turned out that insurance support provided less value than expected. As for other bonds we have been using some agencies and corporates. Some corporates have attractive yields, but we have been careful to use those that satisfy good quality standards.

Most common stock ratios in accounts that we manage are either at or below target. This is due in part to the stock market decline, but it is also due to our cautious outlook. It appears as if market psychology is improving, and there is beginning evidence that the economy is stabilizing. Notable is that one of our bank holdings, Wells Fargo, is estimating that first quarter earnings will be positive and better than expected. The housing market seems to be stabilizing although sales are being made at prices far below peak values. In the Arizona community where Glenn spends his winter months, house sales are picking up. However, it appears as if much repair will have to be done before our economy reaches a normal growth curve again.

| ECONOMIC FORECASTS | |
|---|---|
| ↓ | **GDP growth**<br>-2% in '09 |
| ↓ | **Interest rates**<br>Prime interest rate at 3.25% in '09<br>10-Year T-Notes yielding 3% |
| ↑ | **Unemployment**<br>Rising to 9% in 2009 |
| ↑ | **Inflation**<br>Rising for a couple of months |
| ↑ | **Crude oil**<br>About $57/barrel by late spring |
| ↓ | **Housing sales**<br>Declining until second half of '09 |
| ↓ | **Retail Sales Growth**<br>A drop of over 1% in '09 |
| ↓ | **Trade deficit**<br>$450 Billion, 3.2% of GDP in 2009 |

***Source: Kiplinger***

## *News and Notes*

Two systemic changes made this week may serve as good news to investors in US stocks..

**Mark-to-market accounting rule change**—As Glenn and I have alluded to in the past, part of what has been ailing financial companies and, subsequently, the financial markets, is the somewhat arcane rule of mark-to-market accounting or pricing long-term assets, i.e. mortgages, in short-term fashion. Although Glenn and I do not want to see banks and other financial institutions be given free reign to price assets arbitrarily, we don't feel it prudent to base pricing of these assets on a few distressed trades in relatively illiquid markets. This only serves to provide undue stress on the income statements of many relatively healthy organizations. In short, these assets are long-term in nature and their associated cash flows are being serviced in responsible fashion. The change in the pricing of these assets, to us, seems reasonable.

**The Uptick Rule** – Much to the chagrin of short-sellers, the recent proposal to reinstate the "Uptick Rule," or requiring a security to "tick-up" in price before allowing a short sale, would remove what we feel is undue stress on stocks. Without the uptick rule in place, we feel the stock market is subjected to extreme volatility, such as what has

*(Continued on page 4)*

*(Continued from page 3)*


been experienced over the past year and one half. The SEC is currently examining the merits of this proposal and according to the Wall Street Journal, some variation will be approved. The SEC has also addressed and changed rules on "naked" short selling, so we feel that market technicals are finally being addressed which should soften day-to-day volatility and manipulation.

Glenn and I believe that difficult times like these mandate adherence to fundamental investment disciplines. Although the consumer appears vulnerable, the economy looks weak and the outlook for stocks and bonds alike is questionable, it is difficult to predict the short-term direction of the global financial markets. For this reason, we remain full invested, albeit conservatively, in client accounts as we move through 2009.

We thank you for your business, your friendship and your continued loyalty. We also ask that you remember us as you visit with others who might be candidates for investment management services.

GS

***Investments, Inc.***

333 South 7th Street, Suite 3060
Minneapolis, Minnesota 55402
Ph (612) 371-0590 Fax (612) 371-9869
www.gsinvestments.com
john@gsinvestments.com glenn@gsinvestments.com

## 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 two principals, Glenn H. Steinke, C.F.A., and John G. Steinke, M.B.A.

**Glenn Steinke** 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).

**John Steinke** offers a broad financial services background with 16 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 officer for a large, Minneapolis-based financial institution.

### 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.

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.