GS
INVESTMENTS, INC.
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MarketView

Second Quarter 2011

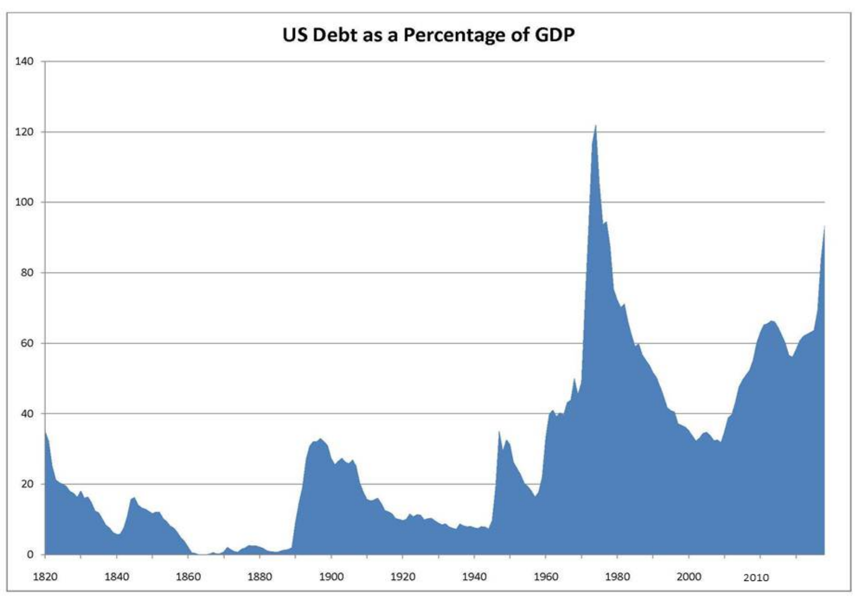
Is it too late already?

Over the course of the last few months, a number of long-term GSI customers have raised questions regarding the appropriateness of remaining invested, given the numerous economic and political headwinds that face us. Simply put , they have asked, why should I remain invested in either stocks or bonds? Wouldn't it be more prudent to buy gold or simply find the nearest pillow case or coffee can and hunker down until things settle? The overwhelming question is, are my investable assets, specifically those targeted for retirement, at great risk?

Here are some headwinds that we currently face:

- Federal debt of nearly $14.7 trillion.
- A Federal budget deficit of over $1.3 trillion.
- Federal spending at 24% of GDP
- China and other US "lenders" own us.
- Political upheaval throughout the middle-east
- Another "war" theater, this time in Libya.
- Oil that has now topped $110/bbl.
- The Japanese earthquake and subsequent tsunami.

Let's look more closely at each of these. First, let's look at the federal debt. It is true that the federal debt is higher than it's ever been. This, by itself, is relatively meaningless as any country's debt burden needs to relate to its domestic output, or GDP, to remain relevant. Looking at things from this perspective, we see that we have been here before (view the chart to the right). During the years 1944-1949, the ratio of US Debt to Gross Domestic Product (GDP) averaged 108%, reaching a high of 122% in 1946. Our current .ratio of 97%, although high, is not the highest we've ever seen. Additionally, gains in productivity have historically helped to offset to our national debt.



Source: www.usgovernmentspending.com

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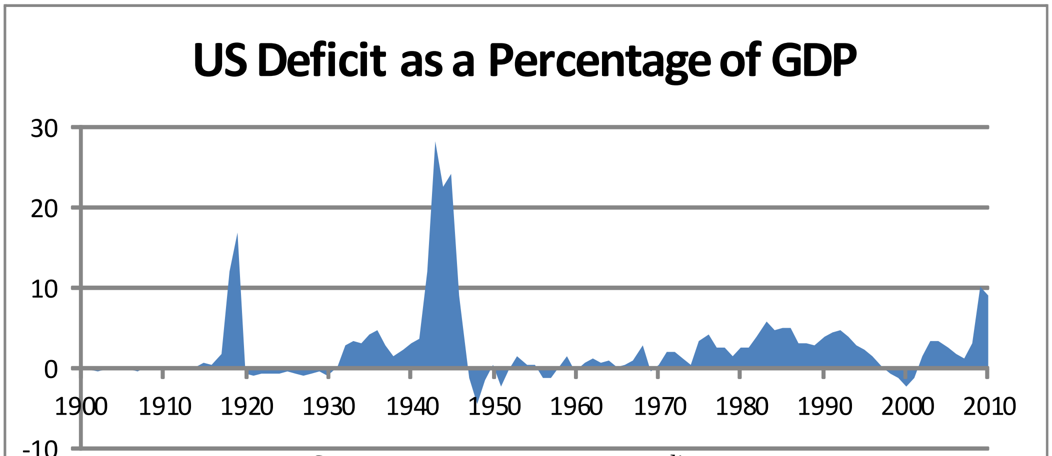
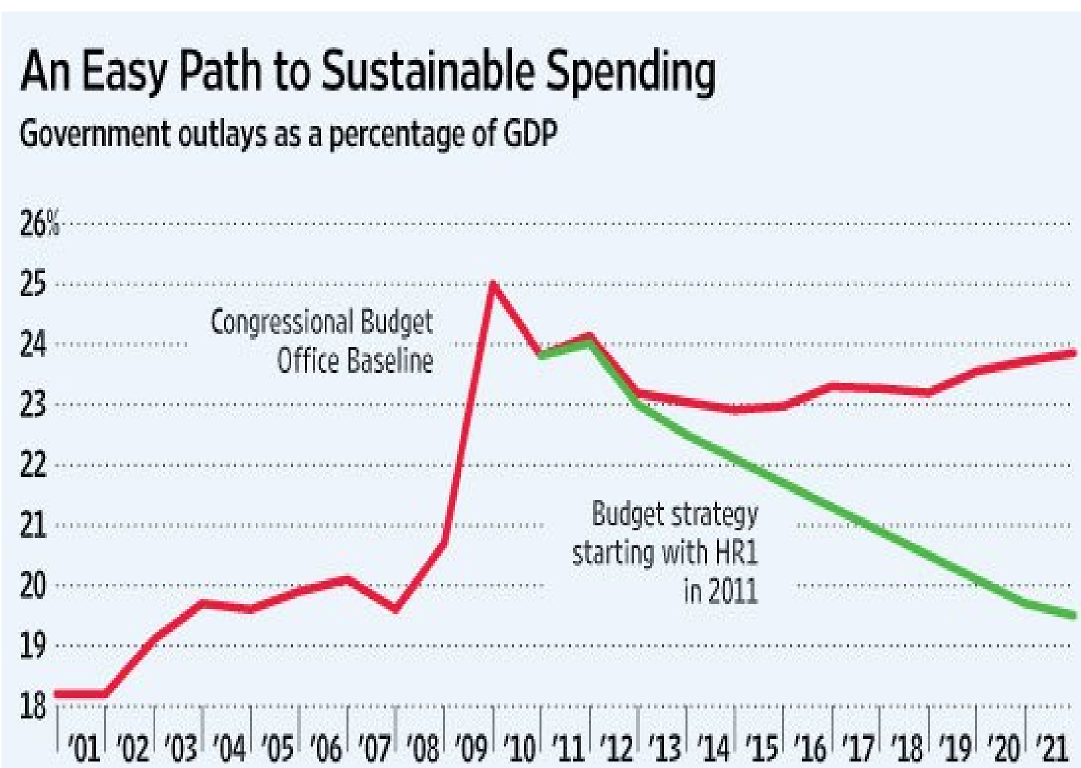


Source: www.usgovernmentspending.com

Next, we look at the Federal deficit (currently $1.3 trillion), the difference between what the government is spending and what it is receiving. Again, taken by itself (and viewed in any single year), this number is of questionable value. Relative to GDP (and viewed over a longer period of time) however, it is again evident that we, as a country, have been here before. Currently, the US Deficit as a percentage of GDP is roughly 9%, far less than the 28% high this country witnessed in 1943 (or even the 17% in 1919). Of course, the US (or any other country) cannot continue to spend more than it produces over a longer period of time. This is simply not sustainable. Given that we have been here before and recovered, it's not implausible to think that we can regain a bit of "fiscal sanity" as a country by controlling our debt burden and reducing our budget deficit.

A recent article in the "Wall Street Journal" provides a strategy to do just that. It essentially proposes that by moderating federal spending, private investment spending will increase and cause GDP to rise. As a result, the article contends, unemployment would decline. By 2021, federal spending as a percentage of GDP, would gradually drop to 19.5% from the current 24.1%. The House of Representatives is currently working to develop a federal budget that includes the elements of the proposal in the WSJ article. If adopted, the country's financial condition could change dramatically. A chart based on this proposal is shown below:



Source: Congressional Budget Office and the Wall Street Journal, April 4, 2011.

Turning to China, the popular belief is that the Chinese essentially "own" us. It's widely known that China has and will continue to buy US debt securities (Treasury Bills, Notes and Bonds). The contention is that the US is now beholden to the Chinese to the extent that they (the Chinese) can either "call" our debt or threaten to increase our borrowing costs. In the end, all of this may be true. What people fail to realize however, is the interdependence of the Chinese and American economies. The assumption that the Chinese will simply call our debt in an effort to collect their funds (or increase our borrowing

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GS Investments, Inc.

Largest Stock Holdings

3/31/2011

Securities	**Pct.**
iShares MSCI Emerging Markets Fund	3.45%
iShares BRIC Fund	3.27%
Apple Computer Incorporated	3.06%
Exxon Mobil Corporation	2.35%
Wells Fargo and Company	2.02%
International Business Machines	1.98%
Schlumberger	1.94%
Costco Wholesale Corporation	1.85%
Hasbro Incorporated	1.85%
Fluor Corporation	1.82%
McDonalds Corporation	1.76%
Nestle Sponsored ADR	1.73%
General Mills Incorporated	1.66%

costs to offset potential default risk) is a bit short-sighted. Given this situation, the Chinese would be forced to buy a good portion of their products and services elsewhere, perhaps at a much higher price, all in an effort to reduce "perceived" credit risk? Short-term, this is not a sensible argument. Longer-term however, excessive US borrowing could lead to a downgrade of our national debt. The corresponding fall-out would be catastrophic for the world. The important point here is that our fate as a country is not yet written in stone. We do have time to change and I believe we will.

Looking to the middle-east, what has transpired over the past three months is mind-boggling. First, the Egyptian government toppled. We have unrest in Tunisia, Syria and even Saudi Arabia. Finally, we have the Libyan situation with the potential for US troops having to be deployed in yet another middle-eastern country. To be expected, the price of a barrel of oil has moved from $79 to it's current $110 per barrel price. Gas prices have also increased 79c from a year ago to nearly $4 for a gallon of regular unleaded gasoline. As we have said many times before, the market hates uncertainty. It also frowns upon sharp escalations in the price of oil (and gas), both of which are now present.

Finally, we have the earthquake and Tsunami in Japan. The devastation that has occurred there is simply staggering. So is the resolve and character of the Japanese people. The heroic efforts of the Fukushima plant workers to spare the country from further devastation through radiation poisoning has captured the hearts and minds of people throughout the world. Regardless, we, as investors, need to be aware of the production capacity that has been disrupted, if not taken off-line. How will this affect the companies that we own from Ford to Apple? As of now, supply chains are being disrupted, and there will be subsequent production delays. However, we believe these will be short-term in nature, and manufacturing adjustments will take place.

Is it possible that corporate earnings will hit a speed bump due to these headwinds? Might the financial markets respond negatively over the near-term? Absolutely. Yet, we believe that it is likely that as the year progresses, corporate earnings will rise and the markets will respond favorably.

THE DIVIDEND ARGUMENT. Several common stocks within our portfolios pay a dividend return ranging between 3% and 6%, far above returns provided by money market funds, bank CD's and even high quality corporate bonds. Also, many of the companies we own have been raising their dividends on an annual basis for many years. Examples are General Mills, IBM and Proctor and Gamble. Even though interest rates on money market

Notable Quotes

"A market is the combined behavior of thousands of people to information, misinformation and whim."

Kenneth Chang

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are January, September, April, November, May, June, December, August and February."

Mark Twain

"Money can't buy you happiness but it does bring you a more pleasant form of misery."

Spike Milligan

"Goodness is the only investment that never fails."

Henry David Thoreau

"if economists were laid end to end, they would never reach a conclusion."

George Bernard Shaw

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funds and bank CD's may rise in the future, it probably will take time before they reach levels above 3%. Thus, we believe by maintaining a long-term position in common stocks in investment portfolios, the relative rewards will be favorable. This rationale should be considered at a time such as now when investor psychology is "shaky" due to an uncertain future and two sharp market declines in the past decade.

Since March, 2009, the financial markets have stabilized, and the stock market has recovered. Sharply rising corporate earnings have been the driver for the stock market recovery. Those and consequent investment spending will have to continue strong to support a rising stock market. The outlook is good for higher corporate earnings in 2011, and although there may be bumps along the way, the odds favor higher market levels by year-end.

ECONOMIC FORECASTS	
↑	**GDP** Increasing to 3.1% growth in '11 after averaging 2.9% in '10
↑	**Interest rates** 10-year T-noes modestly higher in '11; prime, no change
↓	**Unemployment** Bouncing a bit, but finishing '11 under 9%
↑	**Inflation** About 2.5% in '11, from 1.5% for '10
↓	**Crude oil** Approaching $110/bbl. by the end of the summer driving season
↑	**Retail** Rising 3% in '11, but gas prices could lower that a smidge

1 Kiplinger Letter, March 25, 2011.

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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 Glenn H. Steinke, C.F.A., and 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 18 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. John received his BA from Concordia College (Moorhead) and his MBA from the University of Minnesota.

Greg Cunningham comes to us from Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Greg spent 15 years at Ameriprise, most recently in the asset management group. In this role 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.

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.