



INVESTMENTS, INC.

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MarketView

Second Quarter 2012

Another Great Quarter



Another great quarter is in the books. The Standard and Poor's 500 Index advanced 12.4% and the Nasdaq rose 18.7%. Bonds however, returned an anemic .6% (intermediate-term) with cash returning an even-lower .06%. Our accounts also enjoyed a strong first quarter, besting our composite benchmark by more than 1.5%. None of us here expect the markets to continue their parabolic rise uninterrupted but we do see the promise of strong corporate earnings as well as a lack of investments alternatives building a favorable case for equities throughout 2012.

Entering the second quarter of 2012, we are faced with numerous economic headwinds, as has been the case for quite some time. Most of you are familiar with the usual suspects, including the large US debt and deficit, persistently high unemployment, European debt concerns and the list goes on. One of the most pressing concerns, especially in the short-term, is the escalating increase in energy prices, most certainly represented in the price of gas. Since 2009, the price at the pump has risen from \$1.59/gallon to \$3.90/gallon ¹, a whopping 145% increase. If this continues unabated, the

economy will likely slow once more.

One might ask, why remain invested at all as headwinds and uncertainty, according to pundits, should rule the day? Why then do the domestic equity markets continue to advance? The answer may be found in the lack of suitable alternatives; this list includes the aforementioned bonds, real estate, international equities and certain commodities. Yet, despite the market's most recent run, the S&P 500 trades at only 13.5 times its current years' earnings ², not expensive by historical standards. Still, the equity markets have had quite a run over the past six months, leaving us to expect the "pull-back" that we have seen over the last two weeks. How steep this retracement may be or how long it may last is unclear.

It is important to recognize however, that we are not negative on the markets on the markets. We are simply cautious with "new money" commitments to equities at this time. While opportunities do exist, price and earnings quality do matter. As we have said many times in the past, diversification and security selection remain the key to outperformance. Our clients expect nothing less from us.

¹ "The Outlook," (April 11, 2012).
² "The Outlook," (April 11, 2012).

GS Investments, Inc.

Largest Stock Holdings

3/31/2012

<u>Securities</u>	<u>Pct.</u>
Apple Computer Incorporated	3.21%
Exxon Mobil Corporation	2.00%
International Business Machines	1.95%
Wells Fargo and Company	1.89%
Intel Corporation	1.84%
Microsoft Corporation	1.76%
McDonalds Corporation	1.89%
US Bancorporation	1.70%
Ross Stores Incorporated	1.63%
Visa Incorporated	1.61%

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REVEREND, YOUR CONGREGATION MAY SEEM LIKE YOUR CHILDREN, BUT YOU STILL CANNOT CLAIM THEM AS YOUR DEPENDENTS

As investment managers, we are focused not only on achieving the highest risk adjusted return for each of our clients, but also a return that is tax-efficient. Typically, this is done through low portfolio turnover, matching capital gains and losses, as well as ensuring that clients asset mix is efficiently distributed between taxable and non-taxable accounts. With the potential changes coming in 2013, might you be better served by a change in strategy? Perhaps, but we need to reiterate that we are investment professionals not Certified Public Accountants (CPAs). As such, we encourage consultation with one's official tax-preparer before adjusting investment strategy.

With Congress focused on this fall's election and only two months post election to resolve what has been an extremely complex and polarizing issue, there is a risk that many tax cuts may expire at the end of this year if Congress is unable or unwilling to act. Let us review some of the possible major tax changes if no action is taken by Congress.

Expiring Bush Tax Cuts – Some of the bigger items scheduled to expire at the end of 2012 include:

- Higher tax rates – Over the last year we have heard a constant drumbeat about the “Bush Tax Cuts” for the rich, but the reality is that this legislation lowered rates for everyone. The lowest rate of 10% reverts to 15% with the 25%, 28%, 33%, and 35% increasing to 28%, 31%, 36% and 39.6%.
- Capital Gains rates of 15% increase to 20% for those currently in the 25% or higher marginal rate (i.e. those with adjusted gross income or AGI of \$83,600+ in 2011).
- Dividend tax rates increase from 15% to as high as 39.6% as ordinary income rates instead of capital gain rates apply.
- The child tax credit drops to \$500 from \$1,000.

Is it too Early to Think About 2013 Taxes?

We just finished paying 2011 taxes, but with the Bush and Obama tax cuts expiring at the end of 2012, and new taxes kicking in, it may not be too early to start thinking about the potential changes in store for 2013.

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Notable Quotes

If you think nobody cares if you're alive, try missing a couple of car payments.

Anonymous

Every day I get up and look through the Forbes list of the richest people in America. If I'm not there, I go to work.

Robert Orben

When a fellow says, "It ain't the money but the principle of the thing," it's the money.

Kin Hubbard

It is pretty hard to tell what does bring happiness; poverty and wealth have both failed.

Kin Hubbard

Money can't buy friends, but you can get a better class of enemy.

Spike Milligan

If you would know the value of money try to borrow some.

Benjamin Franklin

If you see a bandwagon, it's too late.

James Goldsmith

I have enough money to last me the rest of my life, unless I buy something.

Jackie Mason

I cannot afford to waste my time making money.

Louis Agassiz

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The Marriage Penalty - The standard deduction for married couples could again be less than double that of a single filer.

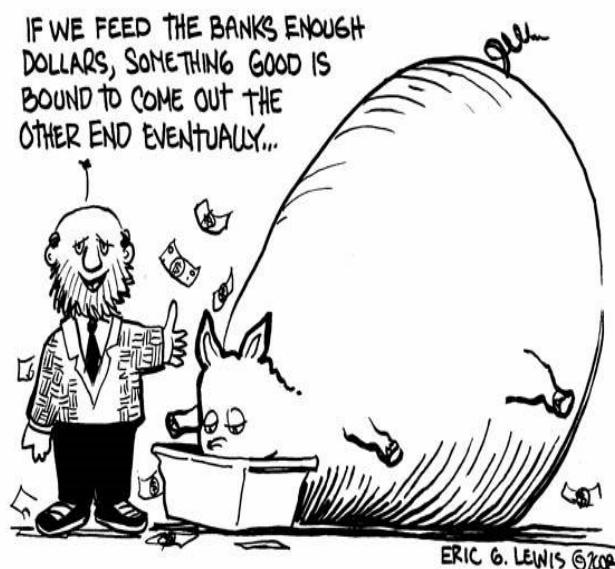
Return of “Stealth Taxes” - Prior to the Bush Tax Cuts were the Clinton Stealth Taxes. They did not raise tax rates, but phased out income deductions. Bush’s reversal of these phase outs expires.

- **Itemized Deduction** – Individuals who itemize with AGI above \$85,000 (\$170,000 for joint returns) may see higher tax bills.
- **Personal Exemption** – Individuals with AGI of \$168,000 (\$252,000 for joint returns) could see their personal exemptions phased out as their incomes rise above these levels.

Health Care Tax - A new tax passed as part of the Healthcare Affordability Act

- A .9% surtax on earned income above \$200,000 (\$250,000 for joint filers).
- A 3.8% tax on all unearned income (capital gains, dividends, annuities, rental income, etc.) where total AGI from all sources is above \$200,000 (\$250,000 for joint filers).

DR. BERNANKE EXPLAINS QUANTITATIVE EASING



ECONOMIC FORECASTS	
↑	GDP Growth Rising by 2%- 2.3% this year; from 1.7% in '11.
↔	Interest rates 10-year Treasuries near 2% for most of the year
↓	Unemployment Around 8% by year-end, despite up-ticks earlier.
↓	Inflation 2% in '12 after hitting 3% in '11, in spite of an energy bump.
↑	Crude oil Highly volatile; topping \$110/bbl. by summer.
↑	Industrial production Factories, mines and utilities up 3% in '12, same as in '11.

where total AGI from all sources is above \$200,000 (\$250,000 for joint filers).

End of 2% Payroll Tax Holiday – For the past couple of years, Social Security withholdings were reduced by 2% for all wage earners. Congress deadlocked on this issue twice before extending it through the end of 2012.

Alternative Minimum Tax (AMT) - Passed into law in 1969, this was aimed at 155 individuals who paid no tax in 1966. However, the income exemption for high income earners was never indexed for inflation and resulted in 3.9 million filers falling under AMT in 2008 3,4 (even with a temporary income exclusion patch). For the past 11 years Congress has passed a temporary “fix”. Without an extension of the temporary patch, the income exclusion reverts back to the \$45,000 where it was decades ago resulting in potentially tens of millions of taxpayers falling under AMT.

In the same vein, the stealth taxes of the Clinton years and the newly passed health care tax also are not indexed for inflation meaning they will collect from growing percentages of Americans in the coming years.

3 “The Statistics of Income (SOI) Bulletin,” (2010).

4 “The Tax Policy Center Urban Institute and Brookings Institution,” (April 18, 2012).

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How Can We Help?

Again, it is impossible to predict how all this will be resolved, but we suggest it would be wise for you to have a discussion with your professional tax accountant. Let us know if you plan to implement any of the following as a result of those conversations:

- Harvesting capital gains
- Converting your IRA into a Roth IRA
- Changing your taxable/tax free income mix.

Finally, a special thank you to all who have entrusted us with your portfolios. We value your business and the opportunity to work with you.

The Road Ahead

*Our greatest compliment
is your referral.*



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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.