



INVESTMENTS, INC.

www.gsinvestments.com
612-371-0590

MarketView

Second Quarter 2013

The Quarter in Review

Looming concerns over the “fiscal cliff” and “sequester” proved dramatically over-hyped as none of the doomsday scenarios played out. Additionally, signs of an economic recovery and an accommodative Federal Reserve helped stocks advance roughly 11% during the past quarter.

Every bit as surprising as the pace of the market advance was the breadth of the rally. Both the Dow Jones Industrial Average and S&P 500 recently reached new all-time highs with all sectors contributing to the rally.

The first quarter showed slow but steady GDP growth. Job creation continued, although at a choppy pace. Despite numerous headwinds, the consumer continued to contribute to growth with housing and autos leading the way.

Additionally, an accommodative Fed has helped to offset some of the potential drag created by sequestration and tax increases. Morningstar sees Gross Domestic Product (GDP) growth remaining in the 2.0% to 2.5% range in 2013; not exactly stem-winding but, most likely, sustainable.

Another indication that the recovery may be sustainable is the uptick in merger and acquisition activity. Over the past few months deals have surfaced across multiple sectors, highlighted by mergers between American Airlines and US Airways and between OfficeMax and Office Depot. In addition, efforts by private investors are being made to take companies such as Heinz and Dell private.

DR. BERNANKE EXPLAINS QUANTITATIVE EASING

IF WE FEED THE BANKS ENOUGH DOLLARS, SOMETHING GOOD IS BOUND TO COME OUT THE OTHER END EVENTUALLY...



GS Investments, Inc.

Largest Stock Holdings

3/31/2013

<u>Securities</u>	<u>Pct.</u>
Wells Fargo and Company	2.08%
Apple Incorporated	2.04%
Exxon Mobil Corporation	1.93%
International Business Machines	1.92%
Visa Incorporated	1.84%
US Bancorporation	1.82%
AT&T Incorporated	1.74%
Williams Companies	1.71%
McDonalds Corporation	1.70%
Schwab Emerging Markets ETF	1.64%
iShares MSCI BRIC Index Fund	1.62%







As we move into the 2nd quarter, we are curious to see where the next round of corporate earnings and economic statistics come out.

Sequestering the Fiscal Cliff

So what exactly happened with the fiscal cliff and the sequester? In short, Congress and the president reached an agreement, in basic terms, on the fiscal cliff, avoided a government shut-down on the debt limit and day-to-day government funding and let the sequester occur

(Continued on page 2)

(Continued from page 1)

ECONOMIC FORECASTS	
	GDP Growth Though slowing in early '13, around 1.75% for the year
	Interest Rates Little change through mid-'13. 10-year T-notes at year-end, 2.25%
	Inflation Rising slightly this year, to about 2.3%
	Unemployment Falling gradually over '13, to around 7.5%
	Crude Oil Trading from \$95 to \$100/bbl. by Memorial Day
	Consumer Confidence Dampened by fiscal worries, then strengthening in summer

1 Kiplinger Letter, March 15, 2013.

with little near-term impact. Therefore, the worst case did not play out as many of the expiring tax provisions that may have knocked the economy on its back were averted. Not every aspect of the fiscal cliff was avoided however; the payroll tax cut expired, sequestration cuts remained in place, and tax rates on high income earners moved up. Despite looming battles regarding the country's long-term debt, deficit and entitlement reform, the economic outlook in the U.S. is perhaps more stable than many of the pundits thought.

What About Europe

Issues continue to pop up in Europe, but are having a declining impact on the market.

Cyprus was recently brought into the spotlight after its recent request for a bailout due to last year's write-down of loans to Greece. The request raised fears that the country's banking system could collapse, forcing the country to leave the Euro-zone.

The initial plan included a tax on all bank deposits held in Cypriot banks. While this plan was soundly rejected by Cyprus's parliament, the notion that a western country could impose a tax on all bank deposits was unnerving.

A second plan, introduced and passed, included the protection of all insured deposits under 100,000 euros. At two key banks, Laiki and the Bank of Cyprus, those with balances in excess of 100,000 Euros were subject to seizure. While this is concerning because of the precedent it may set, there is no indication that others in Europe will follow suit.

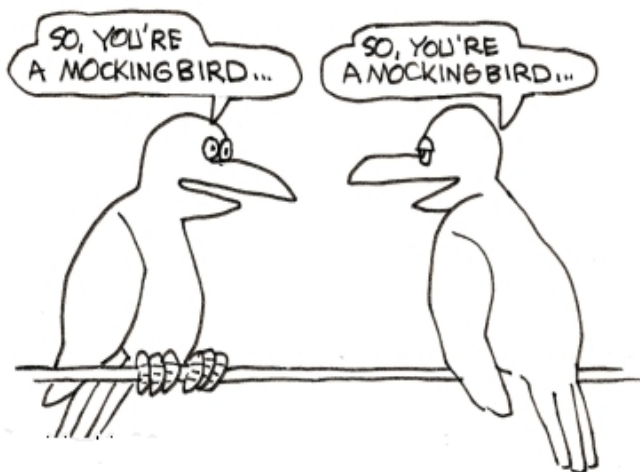
Finally, there is Italy. In the February election, voters soundly rejected prime minister Mario Monti and his austerity measures, heightening fears that the country would move away from necessary reforms. Unfortunately, no clear winner was declared leaving Monti in power, at least for the time being. We will be monitoring the situation closely.

What's Next?

This is an ongoing question here at GS Investments. As discussed, many of the near-term political concerns have been avoided. GDP growth is positive but sluggish, and while Europe continues to be a concern, its impact on corporate earnings should not be significant. Despite the sharp market run-up during the first quarter, stocks are still reasonably valued. The question remains, where is the market headed going forward? Some believe it will continue to rise, others expect a modest pull-back, something that has been mentioned by prognosticators for the last few months. Finally, there are those who believe we will have another bear market. On this point, we turn to the Bear Market Check List developed by David Darst, Chief Investment Strategist for Morgan Stanley Wealth Management. He asks the following questions:

(Continued on page 3)

(Continued from page 2)



ment Survey shown below:

Investor sentiment for the quarter, ended 3/28/13:

- Bullish: 35.5%, down 2.9 percentage points
- Neutral: 36.3%, up 3.4 percentage points
- Bearish: 28.2%, down 0.5 percentage points

Historical investor sentiment averages:

- Bullish: 39.0%
- Neutral: 30.6%
- Bearish: 30.6%

Typically, investor euphoria is characterized by a sharp increase in “bullish” sentiment and a sharp decrease in “bearish” sentiment. In fact, bullish sentiment dropped 2.9% during the quarter and remains 3.5% below historical averages. Bearish sentiment, on the other hand, dropped only .5%, although it remains 2.6% below its historical average. This does not exactly scream euphoria.

4. Are valuations stretched? Not in historic terms. Since 1948, the Standard and Poor’s 500’s (S&P 500) 12-month price-to-earnings (P/E) multiple was 18.3 during periods when GDP growth ranged between 1.3% and 2.6%. As we write, the S&P 500 multiple trades at roughly 14.9 times its 12-month, trailing P/E. The market, although poised for a pause, is not expensive. ²

5. Are transportation, bank and small-cap stocks doing poorly or getting beaten up? Once again, the answer is no. These are considered leading indicator stocks. Each of the above-mentioned sectors have done very

1. Are we entering a recession? By definition, a recession is two consecutive quarters of negative economic growth. By all indications, the U.S. economy, although not robust, is expanding. Most in our line of work estimate that economic growth for 2013 will settle between 2.0% and 2.5%. This hardly suggests a recession. ¹

2. Is the Fed tightening? No. As a matter of fact, the Federal Reserve has stated that it will not raise the Federal Funds rate, a key weapon in Fed policy, until at least the end of 2014.

3. Is investor euphoria present? “No,” says Darst. “There is froth but not a bubble.” Support for this contention can be found in the most recent AAI Senti-

Notable Quotes

“Among the English language’s many puzzling words is economy, which means the large size in toothpaste and the small size in automobiles.”

Author unknown

“If you are going to start cross-country skiing, start with a small country.”

Author unknown

“If not actually disgruntled, he was far from being grunted.”

P G Wodehouse

“I want to make a Facebook account and name it Nobody so that when I like some post, it would say Nobody Likes This.”

Unknown

“I brake for no apparent reason.”

Minnesota car driver

“You tried your best and you failed miserably. The lesson is ‘never try’.”

Homer Simpson

“Tragedy is when I cut my finger. Comedy is when you walk into an open sewer and die.”

Mel Brooks

¹ “Quarter-End Insights.” Morningstar Investment Research, April 3, 2013.

² Sam Stovall, “Is the S&P 500 Fairly Valued?” The Outlook, April 1, 2013.

(Continued from page 3)

well over the past couple of years as referenced below: ³

<u>Category</u>	<u>2012</u>	<u>2013</u>
DJ Transportation Index	3.86%	17.87%
Dreyfus Small-Cap Index	16.02%	13.36%
S&P Financial Sector	26.30%	10.10%

6. Are bond spreads widening? Again the answer is no. Bond spreads, on average, are actually narrowing when compared to Treasuries. This indicates bond investors are not fearing an increase in defaults usually associated with a recession.

Fund Flows

So far this year, U.S. stock focused mutual funds--the traditional domain of mom and pop investors-- have taken in a net of \$33.6 billion, according to Lipper. This may signal the reversal of a large trend when, from 2007 through 2012, \$445 billion was pulled from domestic stock mutual funds. Many on Wall Street think that trend will likely accelerate in the coming months, particularly if the stock rally continues. ⁴

- Multiple sources: Standard and Poors, Dreyfus and Dow Jones.
- The Wall Street Journal, March 30-31, 2013

*“Our greatest compliment
is your referral.”*



Investments, Inc.

333 South 7th Street, Suite 3060
Minneapolis, Minnesota 55402

Phone (612) 371-0590 Fax (612) 371-9869

www.gsinvestments.com

john@gsinvestments.com / glenn@gsinvestments.com /
greg@gsinvestments.com / sheri@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 owners, 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 20 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 Prior to joining GS Investments in 2010, 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. Greg served in a variety of roles with the most recent in the Asset Management Group. 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 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.