MarketView

Second Quarter 2014

GS INVESTMENTS

GS Investments, Inc.

Largest Stock Holdings

03/31/2014

Securities	Pct.
Wells Fargo and Company	2.21%
Dow Chemical Company	2.03%
Exxon Mobil Corporation	2.01%
Berkshire Hathaway Class B	1.94%
Qualcomm Incorporated	1.84%
Express Scripts Incorporated	1.81%
Honeywell International	1.80%
US Bancorporation	1.74%
VISA Incorporated	1.72%
Boeing Company	1.71%

And so it continues

The market run continued in the first quarter of 2014 with the Standard and Poor's 500 Index advancing 1.8% and the NASDAQ increasing .5%. Utilities, REITs and preferred stocks were even stronger, posting returns of 8.5%, 7.4%, and 5.7% respectively. Our intermediate bond benchmark, the Lehman Intermediate Credit, moved up 1.1% and the US Treasury Index increased by .1%. The only disappointment during the quarter was the Emerging Market Index, declining (.8%). All in all, the quarter was solid.

Positives for the quarter were found in corporate earnings. For the 4th quarter of 2013, 78% of the Companies in our core list reported earnings that were in-line or better than expected; this was actually an increase over the prior quarter. Of course, all eyes are now focused intently on the current quarter. As we write, we have had two earnings beats, one miss and one in-line.

Challenges, of course, lie ahead. GDP growth is still slow, and employment gains, as measured by the Labor Participation Rate, are weak at best. New Federal Reserve Chief, Janet Yellin, in her first Congressional testimony, indicated the Federal Reserve could begin increasing rates in as soon as 6 months. That caused a brief market correction, and she has been walking that statement back ever since. Recent comments by Yellin and other members of the Federal Reserve Board indicate rate increases may not be for another two years. This suggests the economy is weaker than originally thought.

The expectation of slower growth, in addition to the market's relatively uninterrupted advance over the past 12-to-15 months, has prompted many in our business to suggest that it may be time to "sell in May and go away." Although this is more representative of a "trading" mentality as opposed to an "investing mentality, we are always looking or opportunities to re-balance accounts and positions.

WHEN DO WE SELL A STOCK

Unless you've been hiding under the proverbial rock the past year or so, you have noticed a handsome increase in the equity markets. To many in our business, attention has been turned to selling stocks; witness the prior two weeks as proof. Of course, those of you who have known us for some time understand that we are investors, not traders, a message that is underplayed on media outlets such as CNBC and Bloomberg. That does not mean however, that we are unwilling to sell securities. On the contrary, there are a number of scenarios that lead us to sell. Given this topic's high level of interest recently, we thought we might talk about some of the scenarios that prompt us to sell a stock.

1. Price objectives have been met. As growth stock managers, the majority of the companies we own were bought with the notion of holding them for 5 to 10 years. Why is this? Because we believe that a company that has consistently grown earnings in the past is likely to do so in the future. Regardless, rising markets and momentum investors can push stock prices dramatically higher in a relatively short period of time. In some cases, a stock may have reached our longer-term price objective and we may sell the whole position. In other instances, the stock may be "fairly valued", but it has grown to be too large of a position in the portfolio. Here, we may "pare" the position slightly at current prices, but hold the remaining shares for longer-term.

2. The story has changed. In this case, the investment hasn't worked out as expected and, from what we can ascertain at the time, it's not likely that it will. Underperformance in the stock is likely as a change in a company's story/thesis is often based on unexpectedly negative news, news that may change how we look at the company. With that said, quick emotional responses to negative news can result in serious mistakes. Before selling any stock, we feel it is important to revisit the rationale behind the initial purchase. If, after a review is done, the story has truly changed, we will move to eliminate the stock in question.

"Up a hundred and sixteen points! If only we'd had the foresight to invest ten minutes ago."

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3. <u>The investment thesis was fundamentally wrong</u>. Whether we missed important information or our assumptions about the company's prospects were incorrect. This scenario, as in point #2, is difficult as it requires us to admit a mistake and sell our position. Adding to the challenge is the difficulty in differentiating between the short-term "negative emotion" that a company may experience and what may be an actual reversal in its thesis. Either way, we are not hesitant to sell if we believe we were wrong.

4. <u>There is a sudden and unexpected change in senior management or the Board of Directors</u>. Here, it's important to know if 1) the person(s) in question quit or were fired and 2) why this happened. Most certainly, if senior management and/or directors resign unexpectedly, the company immediately is placed on our "watch list." Sudden changes of this nature are disruptive and often lead to a sell-off in the company's stock. Proceeding with caution is highly recommended.

5. <u>A formal SEC/governmental investigation of the company is launched</u>. Remember Enron, Tyco, Global Crossing? Each company experienced a catastrophic end after formal investigations were made public and subsequent issues surfaced (e.g. restatement of financials). Our thought here is that, by the time any such announcement is made, it is too late to avoid steep losses. Although we are not perfect, solid research and knowledge of the company, done in advance, is imperative in this situation and will likely help our portfolios avoid potential disaster.

6. <u>Better opportunities exist</u>. This rationale is subjective in nature and requires two decisions; the first is to sell one stock and the second is to buy another. Consistently getting both right can be difficult and time-consuming. Regardless, if any of the prior 5 points occur, we need to find a stock with better prospects to replace the one sold.

Notable Quotes

"I have never been hurt by something I didn't say."
Anonymous

"My marriage is like a giant game of chess. Sure wish I knew how to play chess."
Anonymous

"Great minds discuss ideas; Average minds discuss events; small minds discuss people."
Anonymous

"He who does not stand for something will fall for anything."
Anonymous

"I find greater personal reward in working with the construction crew rather than the wrecking crew, although there is certainly a place for both."

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A Note about growth and value

As we indicated earlier, we are, for the most part, "growth stock" managers. As such, we differ from "value stock" managers, although we readily admit that neither is right nor wrong. Instead of reviewing the characteristics of each style in-depth, we would simply say that what we pay for a stock becomes less important than its ability to consistently grow earnings, over time.

Second, we tend to favor growth stocks with a track record of increasing dividends as this typically indicates management's confidence in earnings growth.

Finally, we do tend to stay away from revenue growth stories that have little to no earnings history. Some of those names rose 50-100% last year, but are now down 20-50% in the last several weeks erasing much of last year's gains.

"Our greatest compliment is your referral."

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GSI Tenets

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., 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 office 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, 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. 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.

Client Communication

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.