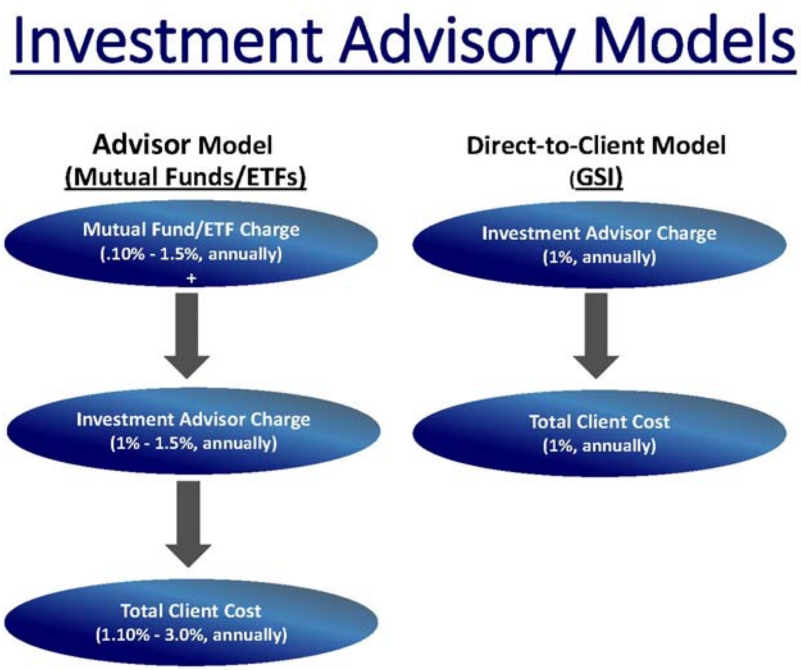
MarketView

Second Quarter 2015



The True Cost of the Advisor using Mutual Funds/ETFs

In our last letter, we addressed some of the fundamental differences between advisors and brokers, particularly the obligation to act in the "best interest" of the client (advisor) versus the need to demonstrate the "suitability" of an investment (broker) for the client.

In this letter we will compare the cost structure of an advisor exclusively using mutual funds and/or exchange-traded funds (ETFs) versus one predominantly using individual securities for the investment of client assets.

Let us start by saying that mutual funds and ETFs are great investment vehicles for the average investor looking for diversification and participation in the stock and bond markets.

On the other hand, mutual funds and ETFs are not always the best investment vehicles for those investors with sufficient funds to own individual securities within in a diversified portfolio (typically $150,000 to $200,000). For them, individual securities can offer greater transparency, tax-efficiency and better performance results due, in part, to the reduced cost of direct investment. What do we mean by this? Perhaps the answer is most easily explained by the picture above.

Here we see two advisory models, one separates the investment management and advisory functions (brokers, insurance agents financial planners) in which the client incurs an additional "layer" of fees. The second is a direct-to-client model (GS Investments) where the investment manager and the advisor are one in the same. Because the two functions are combined in this model, the client only pays one fee for the combined function. This can

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GS Investments, Inc. Largest Stock Holdings 3/31/2015	
Securities	**Pct.**
Apple Incorporated	2.24%
Wells Fargo and Company	2.19%
Walt Disney Company	2.04%
Berkshire Hathaway Class B	1.94%
VISA Incorporated	1.93%
Boeing Company	1.91%
Honeywell International	1.83%
Dow Chemical Company	1.81%
Express Scripts Incorporated	1.64%
CVS Health Corporation	1.62%

significantly reduce the overall investment management cost while simultaneously providing better performance returns for the client. This narrative has long been part of our "pitch" to possible future clients.

What fascinates us is that many investors using these layered advisory models believe that there is no charge or cost associated with the operation and management of the underlying mutual funds or ETFs. In many cases, we receive looks of disbelief when we tell prospects that the true cost for this approach is often 1.5% to 2.5%, annually, (versus 1%, annually for our services). Given the relatively small level of attention this issue receives, we thought you may find it interesting.

NASDAQ 5000

Last month the NASDAQ Composite Index (NASDAQ) reached 5,000 for the first time since the "Dot Com" bubble collapse. The NASDAQ composite index is one of the three most followed stock indices along with the Dow and the S&P 500. Back in the bull market of the 1990's the NASDAQ index soared until it surpassed 5,000 on March 9th, 2000. At the time, it seemed any company with an idea and a website could bring their company public and get a billion dollar valuation. When the bubble burst, the NASDAQ dropped 78% over the following 19 months. Fast forward 15 years and the NASDAQ has again reached 5,000. Should we worry about another collapse?

After a 6-year bull market, we could get a correction at any time, but a collapse seems unlikely for several reasons. This time around, there are key differences; the level of earnings, the price to earnings (PE) multiple, and the companies that

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make-up the NASDAQ market are all much different than they were 15 years ago. For example, the earnings of the top 20 companies that represent over half of the market capitalization of the NASDAQ, are up almost 550% since 2000. Real profits rather than unfulfilled hopes better support stock prices.

Second, according to CNN Money, in March 2000 the average NASDAQ P/E multiple, a common measure of valuation, was 175 times earnings. Today the average NASDAQ P/E multiple is 21.5. This is somewhat higher than average P/E multiple for stocks over many decades, but a far cry from the levels of the dot com bubble. There are still pockets of very high valuation. Biotech has an average P/E over 50 and many social media stocks (e.g. Netflix, Twitter, etc..) with tripple digit P/Es. However, these are nowhere near as prevalent as they were 15 years ago.

Finally, the make-up of the NASDAQ is very different. In 2000, there were approximately 5000 companies in the NASDAQ, many of them dot com firms that had little to no sales, let alone earnings. Today, there are fewer than 2500 companies on the NASDAQ and the fundamentals of those companies, in general, are much better. Back in 2000, high flying technology companies made up almost 2/3rds of the index. Today they represent less than half. Meanwhile, consumer services, healthcare, and financials have all more than doubled in their representation., making up more than 40% of the index.

Notable Quotes

"Games are won by players who focus on the playing field, not by those whose eyes are glued to the scoreboard."
Warren Buffett

"The broker said the stock was "poised to move." Silly me, I thought he meant up."
Randy Thurman

"Don't look for the needle in the haystack. Just buy the haystack!"
John C. Bogle

"Every once in a while, the market does something so stupid it takes your breath away."
Jim Cramer

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."
Paul Samuelson

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Time for a European Vacation

The Dollar Index (DX), which is a measure of the value of the dollar compared to a basket of worldwide currencies is up 26% since last May. This makes it cheaper to travel and shop overseas; however, it also makes goods produced here more expensive to purchase abroad. For U.S. based multi-national companies, overseas profits are impacted as they convert lower valued foreign currency into dollars when reporting their earnings. We anticipate that several multi-nationals will discuss at length how the strong dollar has impacted their first quarter sales and earnings as reported in dollars.

"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.