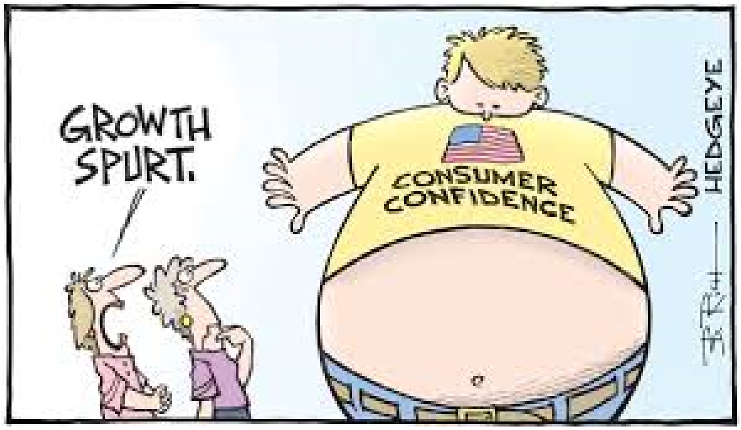
MarketView
Second Quarter 2017

GS Investments

Consumer Sentiment Is Rising (depending on your political view)



It is no secret that the country is politically polarized. The divide between Democrats and Republicans on issues such as immigration, healthcare, and tax reform is as wide as one can remember. However, quite surprising, this polarization extends to people's views regarding the future direction of the economy.

Since 1964, The University of Michigan has published the results of its consumer confidence survey. This survey has been used to gauge consumer's expectations about the future direction of the economy and whether they will increase or tighten spending. This survey is so well respected that it is included along with 9 other leading economic indicators (e.g. jobless claims, building permits, manufacturer's new orders, etc.) as part of the U.S. government Leading Economic Indicators Index. This, in turn, is used by many economists to predict future economic growth or recessions.

The Consumer Confidence Survey has been steadily climbing since the 2009 recession and in March of 2017 had a reading of 97.6, the highest it has been since 2004. However, the political divide has extended to this survey as well. For Republicans the figure was 122.4 (higher than it was during the internet "bubble" of the late 1990's) and for Democrats it was 55.3 (lower than it was at the depths of the "Great Recession" of 2009). It appears, we are either heading for an economic boom or another deep recession depending on one's political viewpoint.

And GDP is growing

The U.S. Department of Commerce announced that its third and final estimate for 4Q16 GDP growth is 2.1%,a slight increase from the previous 1.9% and in line with consensus estimates. The primary drivers to the growth, which were in line with the Fed's

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GS Investments, Inc.
Largest Stock Holdings
3/31/2017

Securities	Pct.
Boeing Company	2.27%
Apple Incorporated	2.25%
VISA Incorporated	2.18%
Honeywell International	2.17%
Berkshire Hathaway Class B	2.15%
PepsiCo Incorporated	2.12%
The Walt Disney Company	2.10%
Wells Fargo and Company	2.08%
Home Depot Incorporated	2.05%
Dow Chemical	1.97%

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near-term targets, were Consumer Spending (+3.5%), Housing (+9.6%) and spending on Equipment (+1.9%). Inventory building also contributed to growth. Segments that lagged were Exports, Intellectual Property, and State & Local Government spending. The health of the consumer remains paramount to the continued growth of the economy, and the latest data is promising. We are encouraged to see spending on Equipment, which has consistently lagged in recent quarters, start to pick up with the increase in oil prices. Government spending could get a boost from spending on infrastructure.

Looking ahead to 2017, we think GDP will show slower growth early-on but increase to roughly 2.5% by year-end. This compares favorably with the 2.0% growth seen in 2016 but would likely prompt the Fed to increase rates two more times by year-end.

Bank of America Analysis

S&P 500 Index Valuation - based on Market Multiples

2018 S&P 500 Earnings			15.5x		16x		16.5x		17x		17.5x	
Unadjusted	Adjusted											
$147.98	$154.98	*	2,294	2,402	0	0	2,442	2,557	0	0	2,590	2,712

*** 2018 S&P 500 Adjusted Earnings**

$147.98	Unadjusted S&P 500 earnings (Est)
$9.00	Corporate tax cut add to S&P 500 earnings
$4.00	Repatriation add to S&P 500 earnings
($6.00)	Border adjustment tax reduction from S&P 500 earnings
$154.98	Adjusted S&P 500 earnings (Est)
2,368	S&P 500 valuation 3/31/17

The Trump Tax Plan and its Effect on S&P Earnings and Market Valuation

Despite the previously-mentioned rise in consumer sentiment and the near 11% stock market advance, we are often asked, "is this current rally warranted?" or "given the run-up, isn't a sharp correction immanent?" These questions, by themselves, have varied answers, depending on whom you ask.

Bank of America analyst Savita Subramanian, recently produced a closer examination of Mr. Trump's tax plan

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Notable Presidential Quotes

"To whatever degree you haven't accepted the risk, is the same degree to which you will avoid the risk. Trying to avoid something that is unavoidable will have disastrous effects on your ability to trade successfully."

Mark Douglas

"Since the dawn of capitalism, there has been one golden rule: If you want to make money, you have to take risks."

Unknown

"The time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell."

John Templeton

"In this business if you're good, you're right six times out of ten. You're never going to be right nine times out of ten."

Peter Lynch

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and its potential effect on S&P earnings, 2018 in particular. According to Subramaniam, the S&P, although it has advanced nearly 11% since last year's election, doesn't look to be overvalued; this is especially true when adjusting for the potential impact of tax reform. Specifically, the components of the Trump tax plan were broken down as follows. Regarding corporate tax cuts, Subramaniam estimates that a reduction in the tax rate to 20% (from its current 35%) would add roughly $17 to S&P earnings, currently estimated to be $147.98 for 2018. Subramanian also surmises that that US corporations would likely realize only 1/2 of this amount (the remaining portion would be either passed on to customers or lost to competition), resulting in an add of nearly $9 to S&P earnings.

President Trump also supports a mandatory tax on the overseas earnings of US corporate subsidiaries, albeit at reduced rates. Subramaniam suggests that if only half of the $2.6 trillion of overseas cash was used for buybacks, an additional $4 would likely be added to 2017 S&P 500 earnings.

Finally, Subramaniam looks at the impact of the proposed Border Adjustment Tax (BAT) and its effect of S&P earnings. His view is that, if implemented, the proposed BAT would likely reduce 2018 S&P earnings by roughly $6.

Taken together, Subramaniam's adjusted 2018 earnings estimate for the S&P 500 is $154.98. Based on the current market value of 2,363, the current, forward-looking multiple of the S&P 500 is 15.26x, a fair distance from the 25-year average of 16.5x. Given a likely tax reform package this year, it is likely that the market has additional room to run.

What if tax reform goes the way of healthcare reform, one may ask? With a current multiple of 15.98x, the market still looks to be reasonably valued.

Schwab Cuts Fees. Twice!

On February 3rd, Charles Schwab cut its stock and ETF trading fees from $8.95 a trade to $6.95 a trade, making them among the lowest in the industry. Just one month later, Schwab again cut those fees from $6.95 to $4.95 per trade, in order to match the price cut of a competitor. This makes Schwab's trading fees the lowest of any of the major discount brokers, including Fidelity, Vanguard, TD Ameritrade, and E*TRADE.

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The Trend is Up

Quo Vadis. In the classical Latin means, “Where are you going?” As for interest rates, the trend is up. Consensus among economists is that the Federal Reserve will hike rates two more times this year, bringing short-term interest rates above 1%. Then, if the economy continues to improve, a 2% target at the end of 2018 is possible. This means continuing pressure on loans, especially auto and housing. Long-term interest rates are harder to project, although they may move up at a slower pace.

Recently, we invested some client funds in Treasury Bills. We did this for two reasons. First, money market funds provide only a modest return. Second, these investments being short-term, experience less price fluctuation. Where bonds are needed however, we tend to continue to ladder the fixed portion of portfolios.

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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 24 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 25 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.