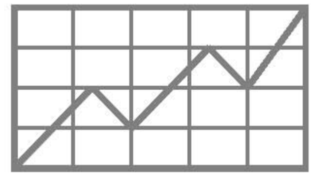
GSI Market View

3rd Quarter 1995



In Minnesota, many are saying that we are having a normal summer. Because the weather is often a topic for discussion in the Gopher State, the notion of a normal summer takes on added importance. It represents more of what is expected and, lacking surprises (unusually long cold periods or hot periods), those of us who live here find greater comfort experiencing a normal summer.

It might also be suggested that we are experiencing a more normal economic environment in the U.S. *Inflation seems to be under better control,* moving ahead at about *3% annually*. Interest rates have apparently settled into a *6%-7% range,* using the 30 year Treasury bond as a measure. Economic growth has slowed following a strong pace in 1994. With recent reductions in short term interest rates, it may pick up later this year, settling near an acceptable rate of *3% in 1996.*

Reasonable inflation and acceptable economic growth, in addition to some positive moves in Washington (budget deficit control), should be an important influence on who is elected to office in 1996. A normal economic environment would likely lead to less upheaval. Subsequently, there would be a tendency to favor incumbents, for they could take credit for keeping the ‘economic engine’ in tune.

Assuming long-term interest rates remain in the 6%-7% range and short-term rates are further reduced, both the housing and automobile markets should benefit. Financing and refinancing of homes should go forward, giving impetus to the *housing market.* Lower short-term interest rates should also make *autos* more affordable, allowing that industry to pick up as well. *These two industries represent a large share of consumer spending and consumer spending accounts for about two-thirds of our overall Gross Domestic Product (GDP).*

A more normal environment portends economic stability. The securities markets and corporate America like stability. It is easier to plan and easier to forecast. The same is true for *individuals who are now saving more* to invest in the securities markets because they may have more confidence in their return expectations, given economic stability. Needless to say there will be *surprises which will disturb the marketplace.* With all that is said above however, the stock market could justify selling at the higher end of its long-term multiple range (where it is now). Bond prices should be less volatile as well.
Our fixed income philosophy has been to *stay invested within a 10 year maturity* range, utilizing tax exempts or taxables, depending on the associated tax status of each account. Regarding equities, our approach has been to *remain fully invested, focusing* on areas of particular promise. We have emphasized *technology stocks, medical technology/healthcare stocks and financial stocks.* We firmly believe these sectors remain attractive.

Technology stocks have gone up sharply this year! Our overweighting of this group has resulted in *superior investment performance* for equity portions of our accounts. Recent sentiment however, leads some to believe that the time has come for a deep correction for this group. *Only time will tell.* We have reduced positions of some of these stocks (as some grew to nearly 10% of the equity portfolio). As a practice, we look to avoid heavy overweightings of individual stocks. There is always the chance that surprises will occur. Saying it another way, *we believe in the importance of diversification to control risk. Our outlook for technology remains* *strong however, and we will continue an overweighting here.*

Our arguments for technology stocks center around the future growth of the PC and the work station, specifically the hardware and software that allows them to interconnect and operate. We believe the computer revolution, though not in its infant stage, should enjoy a lengthy extension to its current cycle, both here and abroad. This should not only occur in the workplace but in the home and in the classroom, making the computer a universal tool, used by all members of the family. As we consider it important to have two cars in the garage, families may find themselves with multiple computers (in addition to the machines found in the workplace). *The potential demand is significant.*

A technology adjunct is telecommunications. At times it is difficult to distinguish between technology and telecommunications because manipulation of voice, data and entertainment intertwine. The fact remains that the world is becoming more globally interconnected as technology is pushing real time communications to the forefront. In short, more people expect to talk with more people, regardless of time or location. Cellular communications is exploding on a global basis and video teleconferencing is right around the corner. There is a tremendous opportunity for those who are well positioned to supply the market with the base technology and hardware, allowing access to a myriad of content.

Band width, band width and more band width. Whether one talks of PCs, networking or telecommunications, another significant opportunity lies with those who can adequately *quench the tremendous "thirst" for band width* (more lanes on which to drive down the 'information superhighway'). Increasing demand for real time communications, more specifically, intensive data delivery, *is the driving force*. Companies continue to align themselves with each other, hoping to produce the eventual "winning" technology, associated hardware and content for video teleconferencing, video on demand, real time internet access and a faster flow of information.

Are there any other areas of interest? Prudent judgment suggests diversification of assets. This is no different with GS Investments. Other areas of emphasis in our stock portfolios have been *medical/ healthcare* and *financial companies*. Medical technology and healthcare stocks whose companies are in the business of reducing costs have been and should be the eventual winners. One such medical device company in our portfolios has redesigned its products, cutting the cost of the related surgical procedure nearly in half. Another example highlights a company that continues to grow as a high quality (regarding treatment), low cost provider. 1995 has also been kind to financial stocks, some of which are specialty financial companies. With the potential for a further decline in interest rates, the immediate outlook for these companies remains good as well. Finally, education and entertainment content providers look attractive over the long-term as demand for their products continues to grow geometrically. Specifically, those who can help to provide better materials for a struggling education industry may benefit handsomely.

So, in summary, it seems to us that our domestic economy should go forward in a normal fashion. One might anticipate r*easonable inflation with an acceleration in economic growth later this year and continuing in to 1996.* As well, long term interest rates could be in an acceptable range with short rates slightly lower. This should help to stimulate *the housing and auto industries again.* Both bonds and stocks should remain attractive with the latter continuing to trade at the higher end of their long-term multiple range. *Technology stocks should continue to be leaders due to their strong long-term growth prospects.*

***GS** Investments, Inc*
920 Second Avenue South,Suite 600
Kinnard Financial Center Minneapolis,
MN 55402 (612) 371-0590