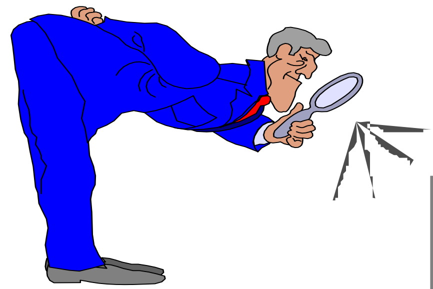
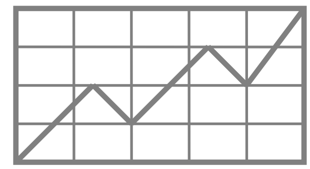
GSI Market View



3rd Quarter 1996



It has become "State Fair" time in the financial markets. *Sharp swings in stocks and bonds have made investors feel as if they have been riding a rollercoaster, or driving bumper cars.* Perhaps it is best these days to be eating bland foods to soothe the stomach rather than risk indigestion at the peak or the bottom of the ride. Each day pundits offer sound reasoning for sharp moves in either bonds or stocks and investors may be led to think that they should make changes in their portfolios based on these reports. Should we listen? Should we act? *Or should we sit it out in the dairy barn until the dust settles?*

In our last quarterly report, we noted that bonds and stocks had moved in opposite directions during the first quarter of this year. Long maturity bonds declined nearly 10% while stocks rose about 6%. We noted that there tends to be a linkage between interest rates and stock prices. If interest rates move too high relative to stock prices---stocks have their own discount rate---stocks tend to adjust downward. This happened in late 1987 resulting in a dramatic downward move in common stocks. *As it turned out, then, those who bailed out of stocks were vindicated over the short term, but they failed to see the sharp upturn in early 1988.* This is when long bond rates were struggling to move below 9% (they eventually did) and stock prices turned upward. Interestingly, the economy was strong throughout the period. *Some forecasters have compared the 1987 period to what is being currently experienced.*

During the second quarter of 1996 bond rates stayed around the 7% level as measured by the 30 year U S Treasury bond, but stocks continued to rise, perhaps due to expectations for reasonably good second quarter corporate earnings. For the most part, these did occur, but in July an adjustment did take place; stock prices were down nearly 5%. These represent point-to-point changes, but on an intra-day basis the moves were more exciting, like riding the rollercoaster. One day in July, the DJIA was down roughly 167 points, turned up to 57 points positive but finally closed up about 9 points for the day. *The total swing was about 3%, enough to give jitters even to long term investors.*

The rollercoaster continues in early August with sharp upward moves in both bonds and stocks. Interest rate sensitive stocks have moved upward following bond prices. *Technology stocks have moved upward with leaders Intel breaking into new high ground and Microsoft nearly at that point.* Health care stocks seem to be trying to find a bottom after a difficult first half of this year.

Our strategy has been to sit it out in the dairy barn, *not making big changes in our portfolios, but making changes in stock sector emphasis and modestly shifting out of stocks and into bonds in balanced accounts**.** In our stock portfolios we have been increasing our weighting in energy stocks favoring names that have good growth prospects or restructuring stories.* We have chosen to avoid straight commodity names which depend mostly on higher energy prices to generate increased earnings. *We feel the longer term prospects for natural gas are attractive and have built in a focus there.*

We continue to like financial stocks and have recently been buying a reasonably priced life insurance company with a good growth outlook. *Demographics seem to favor life stocks due to growth in the 47-49 age group, because at those ages, individuals tend to shift to a savings from a consumption mode.* Some of our bank stocks pick up this theme, also.

Our health care weighting has been slightly reduced to some extent due to extremely good results in 1995 causing an over weighting in this area. *However, we maintain a strong emphasis in healthcare.*

Looking ahead in 1996, we will continue to sit it out in the dairy barn and let others ride the rollercoaster and drive the bumper cars in the Midway. We acknowledge the potential for slightly higher inflation, albeit current market indicators don't support such an increase. *We also think that corporate earnings could falter near term for some companies due to a slowdown in economic growth.* However, we feel it is very difficult to time the markets relative to these potential events.

Long-term prospects for the economy and the financial markets appear positive. So, with fully invested accounts, we will stay with our philosophy of staying fully invested. At the margin, we will continue to make shifts in stock sector emphasis. We will also continue to evaluate the stock/bond relationship in balanced accounts and make shifts where appropriate.

It should be an interesting fall season with a focus on the election. However, be sure to make a visit to the State Fair. *From the dairy barn, one can observe the rides in the midway.* As a spectator, it may be more enjoyable than taking a wild ride and suffering the consequences.

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