GS INVESTMENTS, INC.

MarketView

Third Quarter 2007

Notable Quotes...

When asked what the stock market will do, J.P Morgan (1837-1913) (banker, financier, businessman) replied:"It will fluctuate."

"Bulls make money. Bears make money. Pigs get slaughtered." Anonymous

"Don't try to buy at the bottom and sell at the top. It can't be done except by liars." Bernard Baruch (1870-1965) financier & economist.

The inherent vice of capitalism is the unequal sharing of the blessings. The inherent blessing of socialism is the equal sharing of misery. - Winston Churchill.

A clean desk is a sign of a cluttered desk drawer.

A clean house is the sign of a cluttered closet.

Consciousness: That annoying time between naps.

Despite the high cost of living, it remains popular.

Second Quarter Summary

The resiliency of the financial markets continued to confound many investment pundits during the second quarter of 2007 as interest rate and inflation fears failed to slow rising equity prices. Through June 30, 2007, the S&P 500 is up 6.96%; this is in spite of weak housing numbers, increased energy prices and slowing corporate earnings. What seems to be driving the financial markets? Glenn and I look to the usual suspects, particularly corporate earnings and muted inflation, although each seems to be a topic of debate among those in our industry. Will the trend continue higher? We don't pretend to know what the next 6 to 12 months may bring but do feel generally good about market prospects, especially abroad. One area that concerns us however, is the amount of financial leverage currently found in a number of domestic hedge funds (still unregulated). This, in our minds, remains a "wild-card" affecting the near-term direction of the US financial markets. Stay tuned.

Asset Allocation — Current Outlook

As most of you may know, Glenn and I have always held ourselves out as "balanced-fund managers, utilizing a combination of bonds and stocks to meet the goals and objectives our clients." Ratios of each category depend on client objectives. For example, client exposure to equities may range from less than 50% to 100%. The remainder may be in bonds or cash equivalents (money market funds). Risk tolerance and the need for income determines the balance of equities/bonds/cash equivalents.

A traditional balance between equities and bonds is 60/40; that is 60% stocks, 40% bonds. This ratio has been used for many years as an accepted standard mainly because over the long term equity returns have outpaced bond returns by roughly 2:1. In the past several years investment professionals have broadened the topic of asset allocation to include real estate and international securities. Also, sector and size (large cap, mid cap, small cap) allocation within the equity category has been given greater attention. Then, there is the consideration of growth versus value in the equity category. Finally the private equity category and hedge funds have been added to the mix. So, the subject of asset allocation has developed from a simple bond/stock approach to a more complex set of factors.

We have always used asset allocation strategies in managing client accounts, but as the concept developed we broadened our approach to be consistent with professional practices. This decade we added real estate to many client accounts by purchasing real estate investment trusts (REIT's) in tax exempt accounts and in some taxable accounts. The reason for favoring tax exempt accounts with REIT's is that these have been high dividend paying securities, but their dividends are not qualified. That is, their dividends do not qualify for the 15% dividend tax rate, because REIT's are re-

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Largest Stock Holdings
6/30/2007

Securities	**Market Value**	**Pct.**
Ishares Trust MSCI EAFE Index Fund	$1,570,653	4.19%
Cisco Systems Incorporated	$779,800	2.08%
Ishares Trust MSCI Emerging Markets Index Fund	$745,139	1.99%
American International Group	$717,107	1.91%
ExxonMobil Corporation	$713,148	1.90%
Wells Fargo Company	$699,285	1.87%
Ishares MSCI PAC Ex-Japan Com Index Fund	$672,289	1.80%
Target Corporation	$653,426	1.74%
Johnson and Johnson Company	$611,086	1.63%
PepsiCo Incorporated	$609,266	1.63%

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quired to pay out 90% of their income in order to avoid double taxation to the investor.

Also, in this decade we have added significantly to international common stocks through the use of exchange traded funds (ETF's). These are index funds on baskets of international securities. The reason for the use of index funds is that we prefer to avoid practicing individual security selection in foreign countries due to regulatory, accounting and political differences. We have gradually increased our allocation to these ETF's and have diversified holdings throughout the world. Represented here are countries in the European Union, Asia and South America. Many of these countries are growing faster than the United States, and their securities are valued lower than U.S. stocks.

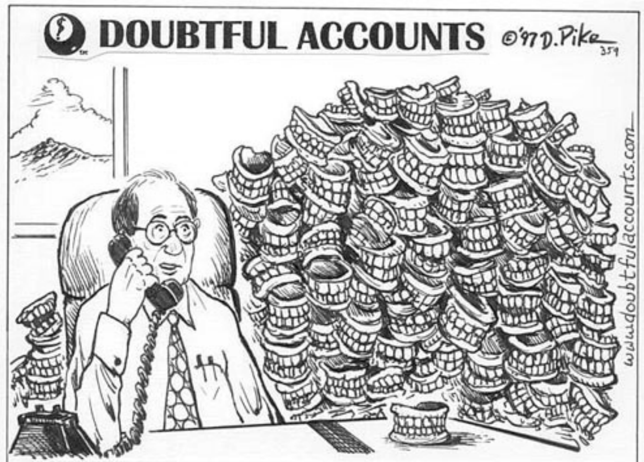
We have and continue to be mostly a large cap growth stock manager. However, in recent years, these stocks have tended to underperform mid and small cap stocks. This has caused us to make a shift in asset allocation among size categories. Some of the large cap growth stocks have been in the health care sector, and they have lagged the market—-namely Amgen, Medtronic and Pfizer. So, we shifted to some mid cap stocks, most of which are mentioned in the additions/deletions section of this report.

Asset allocation will continue to be practiced in our client accounts. The base mix between bonds and stocks will continue to depend on client objectives, but the allocation within sub-categories will shift based on capital market expectations. This shifting will no doubt be gradual, not abrupt, This, again, is a style of management that we practice. We try to move with caution in order to capture steady results in client portfolios.

Often we are asked the question, where is the market (generally, stock market) going over the near-term? The simple answer is we just don't know. Through June 30, this year, the stock market as measured by the S&P 500 is up about 7%. That is much better than most forecasters estimated at the beginning of this year.

Forecasters may have a place, but they do not necessarily manage portfolios. So, their prognostications may be interesting, but they may not count in the end result. Several forecasters' estimates were reported in the July 23, issue of Business Week. None expect the stock markets to rise much from where it is now; some expect a decline. The period considered is throughout the remainder of this year.

Some of the factors guiding our asset allocation decisions now are a resumption of domestic economic growth, energy prices, interest rate levels, inflation, productivity, employment levels and the pricing of the stock market. Also beginning to filter into our minds is the effect on our economy if a



I believe I said sell my American Dental stock and buy me $50,000 worth of their debentures.

decision is made to reduce our military activity in Iraq. The latter would probably have an affect on our employment levels.

The stock market has moved upward hitting new highs for some indexes. Yet, based on the current outlook for earnings out 12 months its multiple is about 16X, not lofty from a historical perspective. Market psychology will in part determine if this is a reasonable level, or not. It is not unreasonable to expect a higher market multiple. If interest rates remain contained and if corporate earnings improve and if the sub-prime mortgage mess is resolved, the stock market could move higher. On the other hand, if these factors fail to emerge the going could be rough.

It is hard for us to fathom higher energy, health care and food prices without their having an effect on inflation. Improved productivity could help, but it may not be adequate to offset these economic realities. In speaking before Congress, Ben Bernanke, Chairman of the Federal Reserve Bank, stated that inflation is still a concern when setting monetary policy. However, he noted that there is evidence that the current high level of inflation may be moderating and gradually declining to levels found acceptable by the Federal Reserve. The implication being that this would result in no further increases in short-term interest rates and possibly a decline in 2008.

One concern that we do have is the effect of the sub-prime mortgage sector on the financial markets. A hedge fund specializing in leveraging their use of Collateralized Debt Obligations (CDO's) in the sub-prime sector is now in trouble and there may be other financial institutions that surface.

The use of collateralized debt is not new. Putting together pools of mortgages, securitizing them and then selling the securities to the fixed income or bond markets has been going on for many years. However, risky hedge funds have stretched their luck by borrowing to buy these securities backed up by risky mortgages. Now, their game has back-

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fired, because of defaults on sub prime loans. At this time we do not know how severe the effect will be on financial stocks. Just recently, a respected financial analyst has advised a sell on several major brokerage firms engaging in the sub prime area. Be assured none of our client accounts have investments in CDO's backed by sub prime mortgages.

At this time, we look ahead with caution, but also note the positive factors surrounding the financial markets. Improving economic growth and strong corporate earnings should support domestic securities and international securities should benefit from entrenched economic strength.

Acting on advice from his broker, Frank - ever the shrewd businessman - invested heavily in China.

Tax Tips

Maximize your IRA Contributions In 2007 you can contribute $4000 to your IRA, or a $5000 "catch up" contribution if you are age 50 or older.

The choice between contributing to a traditional IRA or a Roth IRA depends on your situation. We can help you determine which may be the better choice for you. Call us if you're not sure. For 2007 the income limits increase for making contributions to a Roth IRA. For joint filers, contributions phase out if your income is between $156,000 and $166,000, up from $150,000 to $160,000 in 2006. For single filers in 2007, the range has increased to $99,000 to $114,000. For 2006, it was $95,000 to $110,000.

Charitable Giving Do you donate cash to charity? If so, you now need a "bank record," such as a canceled check, or a receipt from the charity in order to deduct the donation, no matter how small. If you want to deduct your gift, write a check or make sure to get a receipt.

Direct Donations to Charities Consider taking advantage of a tax break scheduled to expire at the end of 2007. If you're 70½ or older, you can transfer as much as $100,000 directly from your IRA to a qualified charity without being taxed on that money. The transfer counts toward your required minimum distribution. This provision also applied in 2006.

Review IRA Beneficiaries: Reviewing the beneficiaries of your retirement plans is a good idea if you haven't done so in the past. If you have had a change in your family situation such as a marriage or birth of a child or grandchild, a review of this situation is a necessity. Please call us if you need assistance.

Did You Know...the History of Stocks?

Trying to define when stock and bond trading began depends on how you define a stock. A stock is considered to be a share of ownership in a company that can be bought, sold or traded. A bond is a loan to a company that can be bought, sold or traded.

Trading of shares of ownership may have begun as early as 9000 BC to 8000 BC, at which time tokens, which were made out of clay, were used for accounting and financial purposes. Unfortunately, writing hadn't been invented at that time, so there is no way to confirm whether or not 'shares' of ownership existed.

Later, around 4000 BC to 3000 BC, an item called a bulla (plural: bullae or bullas) came into use. This was like a clay purse that contained accounting tokens, and was completely sealed. These often had seals imprinted on them, and eventually had notations written on them designating how many tokens were inside and what they represented. For example, they may have represented a certain number of sheep. These

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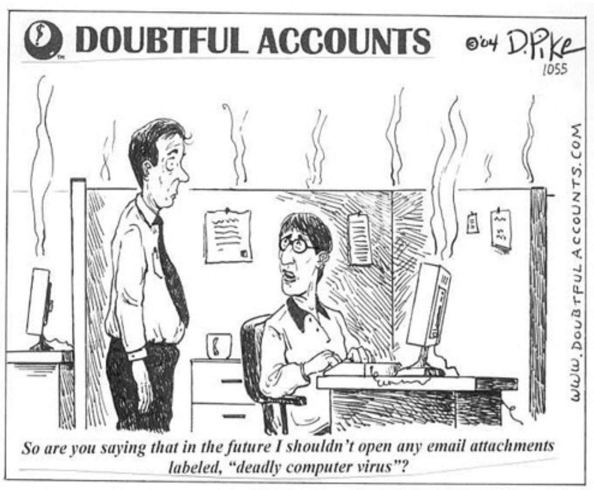

So are you saying that in the future I shouldn't open any email attachments labeled, "deadly computer virus"?

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inscriptions on the outside of the bullae led to what is called cuneiform, considered to be the earliest form of writing.

From around 2500 BC to 1800 BC, cuneiform came into use extensively, especially for financial transactions. Cuneiform is the writing on clay tablets, with a reed used as a stylus. During this period in Mesopotamia, there was a substantial amount of economic activity: agriculture, crafts, ranching, trading, etc. The first documented bond transactions have been documented by cuneiform, where silver has been lent out to a business, and that loan has been transferred to another individual. In addition, the earliest stock or share transactions have also been documented in cuneiform, for funding maritime trade expeditions.

According to some sources, stock exchanges originally came about from trading in agricultural and other commodities during the Middle Ages at what were called Euro-Fairs. Credit was commonly given, and therefore supporting documents were created such as drafts, notes, and bills of exchange. These were the precursors to modern stock and bonds certificates. During the seventeenth century, certificates of ownership of businesses came into existence.

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GSI Tenets

Who is GSI?

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 two principals, Glenn H. Steinke, C.F.A., and John G. Steinke, M.B.A.

Glenn Steinke 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).

John Steinke offers a broad financial services background with 14 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 officer for a large, Minneapolis-based financial institution.

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.

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.