GS

INVESTMENTS, INC.

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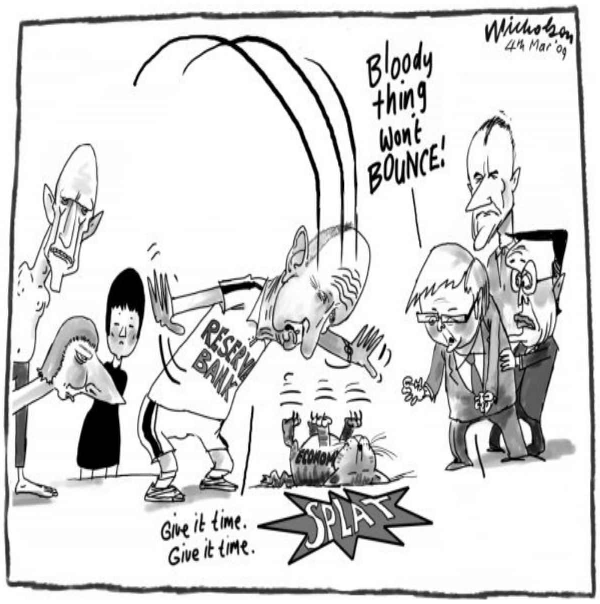
MarketView

Third Quarter 2009

Let's hear it for Yogi

Glenn and I often discuss how the "easy money," if one can call it that, has been made in this most recent quarter including part of March. After declining 38% in 2008 and an additional 18% in the first two months of 2009, it seemed to us that a rebound in the S&P 500 Index, of some sort, was in the cards. Since reaching it's most recent lows on March 8th, the index has rebounded 21.3%, through 6/30/09, not completely unexpected. Is the rebound sustainable, however? The answer is still unclear. At this point, we can't help but think of Yogi Berra's classic comment, "When you come to a fork in the road, take it." One could argue that we are at a fork in the road now. Bears view the move as a "dead cat bounce" and bulls as the beginning of a longer upward move. We argue for the latter, but we do not know exactly when and by how much.



GS Investments, Inc. **Largest Stock Holdings**	
6/30/2009	
Securities	**Pct.**
iShares Emerging Markets Fund	2.22%
iShares BRIC Fund	2.17%
Apple Computer Incorporated	1.92%
McDonald's Corporation	1.84%
Wells Fargo Company	1.79%
Microsoft Corporation	1.78%
Qualcomm Incorporated	1.77%
General Mills Incorporated	1.75%
Johnson and Johnson Incorporated	1.72%
PepsiCo Incorporated	1.70%

Lubrication for the economy is in place. Banks have money to lend and interest rates are low. The federal government earlier this year put a massive stimulus package in place. We think it has been very slow in developing, but will eventually have an effect. One example is where Minnesota was given some $50 million to develop greater energy efficiency, and that was just recently made available. Now it will have to be processed through the state bureaucracy before it actually is expended. No doubt this is an example of what is happening throughout our domestic economy. Once stimulus moneys get into the system, our economy should improve. As the year progresses, we think economic growth should resume, although slowly, and corporations should begin to show improved earnings. Earnings comparisons should be much easier as we move into the final quarter of this year and

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Notable Quotes

The problem with socialism is that you eventually run out of other people's money.
Margaret Thatcher

The key to making money in stocks is to not get scared out of them. ~ Peter Lynch

Money can't buy happiness, but it can buy you the kind of misery you prefer.
Author Unknown

Do not value money for any more nor any less than its worth; it is a good servant but a bad master.
Alexandre Dumas fils

October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.
Mark Twain

especially into 2010. However, this may not be an easy road to travel. With unemployment at a 9.5% rate and still rising, much improvement in the economy is required. Housing remains a problem with foreclosures still rising. Banks still have massive charge offs to face. And we are in the midst of the summer doldrums. But fuel prices are moving lower, and natural gas bills for air conditioning now and heating later this year should be sharply lower. So, there are some positive factors to be considered.

We don't think the stock market is overvalued despite the recent upward move. It is our view that many good values exist in the marketplace. In order to put this into perspective go back to October 6, 2008 when the S&P 500 was at 946. That is when Warren Buffet stated in the New York Times that it was time to put money in the stock market We all know what happened following that market call. Stocks declined sharply. In Mr. Buffet's defense, he was suggesting that many stocks were fairly valued. Jeremy Siegel, a professor of finance at the Wharton School of the University of Pennsylvania has also been claiming that stocks have been fairly valued since that date. In December, 2008, Ned Davis Research, a technical service, also suggested it was time to put money in stocks. The point is, none of these experts is perfect at timing the market, but they are good at determining value levels. Since a low in March, stocks as of June 30, 2009, were higher than closing prices were at the end of 2008. As we have stated before, we do not claim to be market timers, but we also feel that many stocks are reasonably valued at this time, and in the not too distant future these values will be realized.

In our last newsletter, we noted that history tells us that dividends account for a good portion of a given stock's overall returns. So far this year, many dividend changes have taken place, both up and down. The second quarter marked an all-time low for dividend increases in a given quarter. Only 233 of the 7,000 publicly-owned companies increased their dividend payouts. This was down from 455, or 49%, in the 4th quarter of 2008. In addition, 250 companies either cut, decreased or eliminated dividends.[1] The financial sector was prominent regarding deep dividend reductions.

"He says he's a shareholder!"

Of our core stocks however, 10 bucked the dividend reduction trend with each of the following raising their dividend: Airgas, ExxonMobil, IBM, Johnson & Johnson, Proctor & Gamble, Qualcomm, Stryker, AT&T, Wal-Mart and XTO. The above companies must have confidence in maintaining and growing earnings and cash flows when taking these actions. We are pleased to have portfolios experience such increases. It is our belief that the financial stocks in client portfolios will pay higher dividends once their capital structures are firmed up and loan losses come under better control. Think of

1 Barron's, July 6, 2009

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retirees, working for these companies, who kept stock in their retirement plans and are now experiencing significantly lower retirement income. The pressure to reinstate higher dividends will be enormous.

One way to offset these dividend reductions has been to purchase preferred stocks of these institutions. We made this move in portfolios and while preferred stock prices have gyrated along with common stock prices, dividends have been maintained and these stocks provide a cash yield of about 8%. Also, their prices have returned to normalcy.

During the first quarter of 2009 when gloom and potential disaster permeated the psychology of the marketplace, we held an unusually high level of cash equivalents, much of which was committed longer term in the second quarter. There were two reasons for these actions. First, stocks became available at unusually attractive levels, and second, low interest rates accompanied by rising confidence caused a move into taxable and tax exempt bonds. As for taxables, we purchased some lower rated but still investment grade bonds providing attractive returns. Second, our strategy was to concentrate in medium term maturities as we feel there is increasing risk of inflation due to tremendous borrowings of the federal government. To offset this risk, we have used TIPS (Treasury Inflation Protected Securities).

One writer who follows TIPS prices closely states that based on current prices, this security is forecasting inflation at a rate of 1.7%. He also points out that inflation historically has averaged above that level. [2] We note that the current chairman of the Federal Reserve, Ben Bernanke, considers a 2% inflation rate reasonable and thinks of it as a target. Once our economy strengthens a 2% rate might be difficult to maintain, but if inflation begins to rise above that level the Federal Reserve will probably move to raise interest rates. It is possible that this could come about in 2010 or 2011.

As for asset allocation within the common stock sector, last year we cut back and rebalanced our international holdings giving remaining emphasis to emerging and BRIC (Brazil, Russia, India and China) countries.

Earlier this year we began to put more emphasis on holdings in these areas. In spite of this upward shift in international holdings, we remain low relative to the balance of international

GSI ECONOMIC FORECASTS	
↔	**GDP** Flat to up by year-end
↔	**Interest rates** Prime interest remaining at 3.25% for 2010
↑	**Unemployment** Peaking above 10% in 2010
↑	**Inflation** Rising slightly for several months
↑	**Crude oil** Between $60 - $70/barrel throughout the year
↑	**Housing sales** Increadsing in Q2, 2009
↑	**Retail sales growth** Flat to modest increase thoruhgout year
↓	**Trade deficit** Falling to 497 billion in 2009 [1]

2 Calafia Beach Pundit, "Are TIPs still a good investment?" 7/8/09

1 Kiplinger Letter, June 12, 2009.

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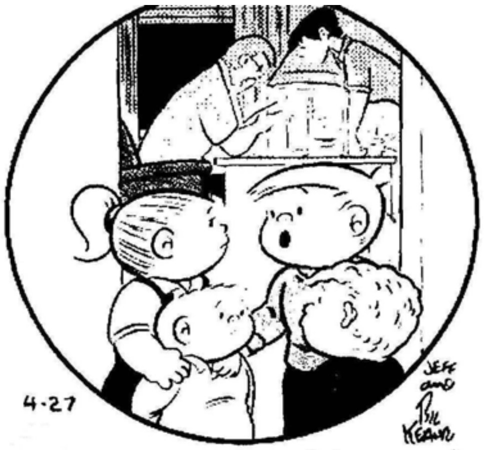

"If the 'conomy doesn't improve, I think Daddy might hafta let PJ go."

stocks in the global economy. So, it is our current plan to move to toward a 10% position in international securities in a standard balanced account. The strategy here is to capture faster growth in these countries, and in addition avoid currency problems that have plagued our domestic economy. After becoming part of the global slowdown, China and Brazil are picking up steam. According to recent reports China is again growing at an 8%+ rate. This compares with negative growth in the domestic economy. Needless to say, many stocks we own that have significant international activity will participate in this growth, as well.

Please remember GS Investments if you make contact with a person or an institution seeking investment management services. We have managed to keep client portfolios afloat during these turbulent times gaining creditability and trust along the way. Last, but not least, we especially appreciate your business and confidence in us.

Glenn and John Steinke

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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 16 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.