GS
INVESTMENTS, INC.
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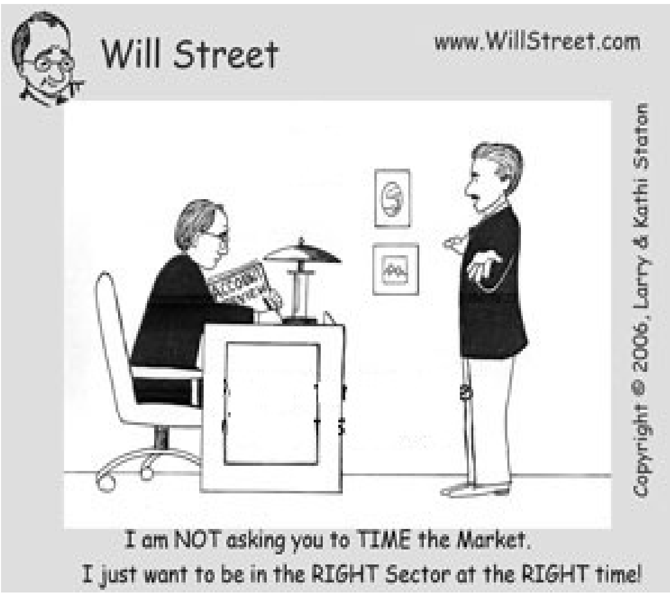
MarketView

Third Quarter 2011



When driving down a dusty dirt road it is hard to see ahead, especially if there is a vehicle driving toward you blowing a cloud of dust behind. Your vision is further limited when a vehicle passes you, and all you can do is wait for the dust to clear. Worse yet is when there are several vehicles in front of you whipping up dust clouds. That is where we seem to be today in the global economy. Every time the dust clears, another vehicle (economic event) blows a cloud of dust across the road making it difficult to see ahead. The weather: dusty cloud; unemployment numbers: dusty cloud; housing reports: dusty cloud; Japanese earthquake: dusty cloud; Gross Domestic Product (GDP) numbers: dusty cloud; potential Greek default: dusty cloud; and so on.

However, there have been clear spots. Continued GDP growth (although slow): clear spot; strong corporate earnings: clear spot; low interest rates: clear spot; declining energy prices: clear spot; new domestic energy discoveries: clear spot; surprisingly strong retail sales: clear spot; the stock market having positive results for the year (so far): clear spot; and so on.

Our media outlets tend to focus on the dust clouds, not the clear spots. Understandably so. Storm warnings get more attention than blue sky. So where should an investor focus? On the dust clouds, or on the blue sky? It seems foolish to consider one and not the other. A balance seems necessary.

That balance may not be the same for all investors. It may depend on risk tolerance. Like today, July 11, 2011, the Euro and the Euro countries are in trouble, and the stock market is in sharp decline. Investors are nervous, the news media is emphasizing the negative. Scary times. But have we had scary times before? Absolutely! Has our nation survived? We know the answer to that. So, what is our risk tolerance? What is our time horizon?

The time horizon for endowment funds is longer than it is for individuals. After all, human beings are mortal. Endowment funds may have a terminal date, but it tends to be more infinite. A rational, young investor may want to take more risk than a retiree. This makes sense due to time horizon. However, if your stomach churns at every turn in the market, a lower risk tolerance may

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Largest Stock Holdings

6/30/2011

Securities	**Pct.**
Apple Computer Incorporated	2.74%
Exxon Mobil Corporation	2.18%
iShares MSCI BRIC Index Fund	2.08%
International Business Machines	1.96%
Costco Wholesale Corporation	1.93%
McDonalds Corporation	1.90%
Schlumberger Limited	1.88%
Wells Fargo and Company	1.74%
iShares MSCI Emerging Markets Fund	1.72%
Microsoft Corporation	1.70%
Ross Stores Incorporated	1.64%
Hasbro Incorporated	1.62%
General Mills Incorporated	1.61%

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Notable Quotes

"Put not your trust in money, but put your money in trust."

Oliver Wendell Holmes

"The key to making money in stocks is not to get scared out of them."

Peter Lynch

"If past history was all there was to the game, the richest people would be librarians."

Warren Buffett

"A market is the combined behavior of thousands of people responding to information, misinformation and whim."

Kenneth Chang

"Money is like manure. You have to spread it around or it smells."

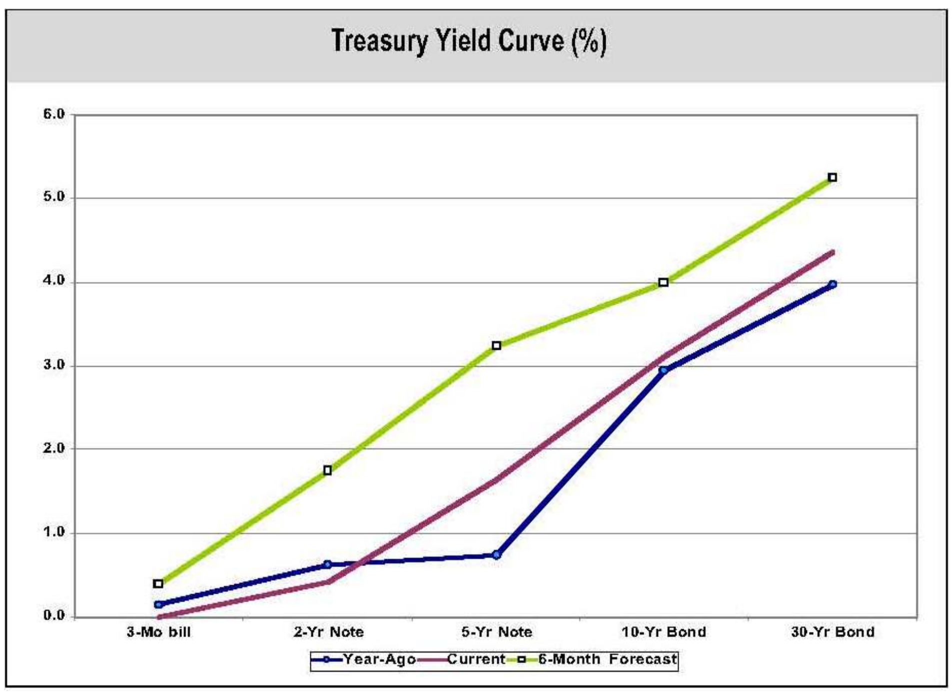
J. Paul Getty

"Money is better than poverty, if only for financial reasons."

Woody Allen

be appropriate; this is in spite of time horizon. Years ago we had a meeting with a middle-aged married couple. When discussing risk tolerance, the husband stated that a 60% equity exposure would be about right. "No," said his wife. "If you have more than 50% in stocks, you won't be able to sleep at night." After further discussion, it was decided that their maximum equity exposure should be 50%. We urge every client to think carefully about their risk tolerance and their time horizon.

The problem today is not only risk tolerance and time horizon, but after determining common stock exposure, what does one do with the remainder? Some form of fixed income component seems logical. But where does one go to get a decent fixed income return? Short-term investments provide very low returns, making it unattractive to own securities in this space. Longer-term bonds do provide better returns, but have what is referred to as interest rate risk. This means, as interest rates change, the prices of bonds change. For example, buying a 3%, 10-year U.S. Treasury note today would risk a price decline of 10% if interest rates rose to 4% in twelve months. This is a strong possibility. The chart below shows the interest rate outlook of a notable independent research firm. Their estimate is that interest rates on ten-year Treasury notes will rise to 4% in 12 months. We should remember that the Federal Reserve does raise short-term interest rates when conditions change. If unemployment rates were to reverse the current trend, the Fed would act.



Argus Research

What we have done somewhat is to purchase investment grade corporate bonds or bond funds to gain higher interest returns. As stated earlier, we have also invested in preferred stocks (7% plus dividend yield) and a few high yielding utility common stocks (5% average dividend yield).

As for common stocks, we have emphasized large capitalization, dividend-paying stocks. Also, we have been careful to diversify among industry groups. Our exposure to international common stocks has been through the use of Exchange Traded Funds (ETF's). We have limited that exposure to 10% of the equity portion of client portfolios. This

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is explained further in the Additions and Deletions piece sent to each of our clients quarterly.

Our outlook for the stock market remains positive. Second quarter corporate earnings are beginning to be reported. It appears as if they will be up nicely when compared to last year's second quarter. However, there may be some negative surprises due to Japanese supply chain problems and weather. Many of these issues however, could be resolved by the third quarter.

ECONOMIC FORECASTS	
↓	**GDP Growth** Slowing to 2.5% growth in '11 after averaging 2.9% in '10
↑	**Interest rates** 10-year T-noes modestly higher in '11; prime, no change
↓	**Unemployment** Bouncing a bit, but finishing '11 under 9%
↑	**Inflation** About 3% in '11, from 1.5% for '10
↓	**Crude oil** Slipping below $90/bbl. this summer
↓	**Consumer Confidence** Subpar growth in jobs keeps consumers in a funk

1 Kiplinger Letter, July 1, 2011.

The budget impasse, the debt ceiling debate and its effect on the markets (and your portfolios). The current budget impasse and the potential unwillingness to extend the US debt-ceiling (in addition to everything else that constitutes "bad news") has heightened the concerns of investors everywhere, our clients included. The overriding question is what will happen to account valuations in the aftermath of such an occurrence? Specifically, clients have asked, is now the appropriate time to "pull-out of" or "significantly reduce exposure to" the market, moving instead to cash? While we remain sensitive to client concerns regarding portfolio valuation decline, we must reiterate that we do not believe in nor do we practice market-timing, an approach on which we have written many times in the past. Instead of re-hashing the arguments in favor remaining fully-invested, we thought it might be more helpful to look at previous market responses to US budget impasses. Shown below is a chart reflecting the returns of the S&P 500 in the year following a major government shutdown from 1980 to 2011. In each case, the S&P 500 sold–off in the face of a constant media barrage regarding the impending shutdown. Agreements were reached each time and the markets recovered nicely. Will things be different this time? We expect that cooler heads will prevail and a budget resolution is reached. What about the extension of the debt ceiling? Both Moody's and Standard and Poor's ratings services have indicated the possibility of a US credit rating "downgrade" given a refusal to extend the debt ceiling, something that would disrupt the bond and stock markets globally. Frankly, we don't think that this will happen but it remains a risk. When all else fails, we refer back to the asset allocation parameters put in place for each of our clients. In most cases, these will not change. In some cases however, slight adjustments may make sense. Client communication here remains key.

Major Government Shutdowns 1980 to 2011

Year	Date of Shutdown	S&P 500 Return in Year Following Shutdown
1981	Tuesday, November 17, 1981	21.4%
1984	October 3 - 5, 1984	32.2%
1990	October 5 - 9, 1990	30.5%
1995	December 16, 1995 to January 6, 1996	23.1%
2011	????	????

Source: About.com

In the spotlight, IBM and General Mills. In celebrating its 100th Anniversary, IBM was cited in a four -page ad in the New York Times for its successful, corporate longevity. It was noted that long-term thinking and listening to ones clients, essential ingredients to IBM's growth and prosperity over the past 100 years, have waned in corporate America over time, resulting in a dramatic decrease in the number of companies that our grandparents once admired. The ad also noted that, "Of the top 25 industrial corporations in the United States in 1900, only two remained on that

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list in the 1960's. And of the top 25 companies on the Fortune 500 in 1961, only six remain there today." Deloitte's "Shift Index" provides supporting evidence, indicating... "the average life expectancy of a Fortune 500 company has declined from around 75 years a half-century ago to less than 15 years today." Our feeling is that our clients will be best served by owning good companies, positioned nicely for the long-term. IBM is one of these companies.

General Mills (GIS), described by Standard and Poor's as a "Dividend Aristocrat", recently increased its dividend 9%, to $1.22 per share of common stock. On its current price of $37, it provides a dividend yield of 3.3%. GIS may not be a "zinger," but may best be described as a "steady Eddy" with regular earnings progress and annual dividend increases. Future inflation may cause headwinds for GIS, but management has been effective moving the company forward. We expect this will continue.

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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 Glenn H. Steinke, C.F.A., and 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 18 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. John received his BA from Concordia College (Moorhead) and his MBA from the University of Minnesota.

Greg Cunningham comes to us from Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Greg spent 15 years at Ameriprise, most recently in the asset management group. In this role 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 20 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.

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.