GS INVESTMENTS, INC.
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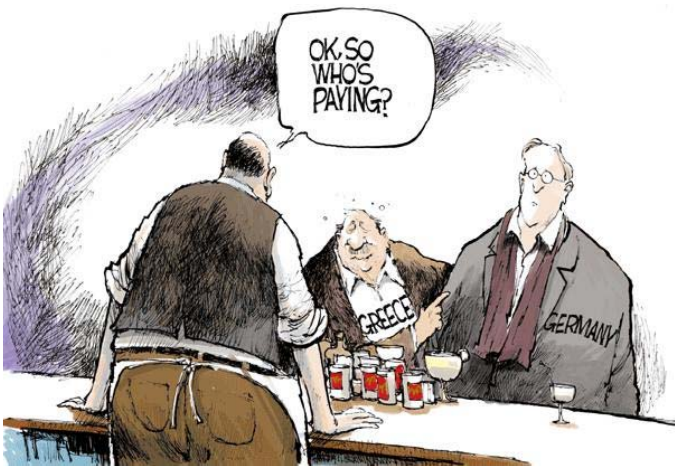
MarketView

Third Quarter 2012



Too focused on the negative?

As the year 2000 approached, many forecasters were emphasizing the "negative." One of the foremost prognostications was that many computers would not function after 12/31/1999, based on their inability to convert to the year 2000. The end of the world was upon us. Media outlets, as they often do, began to report this prognostication as practical certainty because negative news seems to be more exciting than positive news. At this time of writing we are all well aware of the problems facing the world.

Euro currency members can't seem to develop a remedy for fiscal problems facing nations such as Greece, Spain, Italy, etc. The expectation is that current economic stalwart, Germany, will come to the rescue, and bail out nations in fiscal crisis. However, Germany is reluctant to step up to the plate unless weaker nations agree to both restrain spending and to repay their sovereign debt over time. After the fall of the Berlin wall, West Germany sacrificed for many years to bail out and rebuild East Germany. The Germans are not anxious to repeat that experience again for southern European countries they do not politically control.

The Middle East continues to be unsettled as well. A recent news report suggested that Israel might attack Iran prior to the upcoming U.S. presidential election. The fear is that the U.S. would likely intervene, disrupting the world financial markets in the process. The fear and uncertainty of such an event actually occurring has elevated the "defensive" posture of many in the investment business. Regardless of what may happen, Iran continues to rattle its sabre, threatening to close the Straits of Hormuz where so much oil passes.

In addition, China, Brazil and India seem to be experiencing slower growth, affecting other countries that are dependent on their economic success. Natural resource countries such as Australia and Russia are prime examples here.

Last, but not least, is the "fiscal cliff" the U.S. may be facing at year-end. The expiration of the temporary stimulus, the Bush tax cuts, and the new Affordable Healthcare Act, effective 1/1/13, have investors concerned that the new year may bring a new downturn.

Why then, has the market not experienced a more dramatic sell-off? Perhaps one reason for its resilience is a strong corporate America. Over the past three years, companies have produced robust profits, solid balance sheets, increasing dividends and additional stock buy-backs. Perhaps another reason is the lack of better investment alternatives as bonds, commodities and real estate each have their respective concerns.
The case for stocks, when viewed historically, is that they are reasonably priced. Specifically, the Standard and Poor's 500 Index (S&P 500) currently trades at 13 times 2012 estimated earnings. This compares favorably with its historical average of 16 times its current-year's earnings. Additionally, the yield on the S&P 500 is 2.35%, a more attractive alternative than the 1.5%

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GS Investments, Inc.

Largest Stock Holdings

6/30/2012

Securities	Pct.
Apple Computer Incorporated	3.17%
Exxon Mobil Corporation	1.99%
Wells Fargo and Company	1.88%
AT&T Incorporated	1.85%
International Business Machines	1.83%
Intel Corporation	1.79%
US Bancorporation	1.74%
Visa Incorporated	1.70%
Microsoft Corporation	1.68%
Philip Morris International	1.60%

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yield on 10-year Treasury. If history is an indicator of future results, stocks look to be a better alternative to bonds whenever the yield on the S&P 500 is greater than that of the 10-year Treasury. Time will tell.

What if investors are uncomfortable owning stocks? Bonds or money market funds are often viewed as alternatives although neither provides enticing returns at the present time. As of our writing, the ten-year U.S. Treasury bond yields less than 1.5% and the average money market fund yields just above 0%. Aside from yield, the primary reason for owning these securities is to reduce volatility and to provide principal preservation for investors.

One note regarding bonds. As we have written before, bond prices and interest rates are inversely related. This means when interest rates rise, bond prices decline. With current interest rates at multi-year lows, it is reasonable to expect rates to rise over time. Bond prices therefore, would be expected to decline, thus the reason for our hesitancy to purchase bonds, especially longer-term bonds.

Where is an investor to go with his/her money? For our clients, we believe the best approach is to have a balanced investment mix, giving consideration to individual risk appetite. In order to capture return in balanced portfolios we have used preferred stocks and an overweighting of utility common stocks. We have also used high quality, corporate bonds that provide income returns above Treasuries. As for common stocks, we have favored dividend-paying stocks that have a history of increasing their dividends, leading us to believe that they will continue to raise their dividends going forward. We thought it would be interesting to examine our ten largest holdings for dividend yield and recent dividend changes to support this strategy.

ECONOMIC FORECASTS	
↑	**GDP Growth** 2% in '12, with spring's full yielding to a second-half pickup.
↑	**Interest rates** 10-year Treasuries 2% or less at year-end; 2.5% in '13.
↓	**Unemployment** Around 8% by year-end, despite up-ticks earlier.
↓	**Inflation** 2% in '12 after hitting 3% in '11, in spite of an energy bump.
↑	**Crude oil** Highly volatile; trading at $90 - $95/bbl. by fall.
↑	**Commercial construction** Deals rise as low interest rates offset weak economic growth.

1 Kiplinger Letter, June 22, 2012.

Note the growth in dividends for 9 of our 10 largest stock holdings. Although the increases vary in percentage terms, each one of our companies increased their dividend payout over the last 12 months. As a group, the financial stocks showed the largest percentage increase with both US Bank and Wells Fargo increasing dividend payments by more than 80% over the prior year. To note, banks were required by regulators to drop their dividends sharply in 2009. Now they are being allowed to raise them back toward previous levels.

Company Name	Share Dividend Previous	Current	Current Yield	% Increase Last 12 Months
Apple	$0.00	$10.60	1.9%	NA
ExxonMobil	$1.85	$2.28	2.7%	12.4%
Wells Fargo	$0.48	$0.88	2.6%	83.3%
AT&T	$1.72	$1.76	4.9%	2.3%
IBM	$3.00	$3.40	1.7%	13.3%
Intel	$0.84	$0.90	3.4%	7.1%
US Bank	$0.43	$0.78	2.4%	81.4%
Visa	$0.60	$0.88	0.7%	46.6%
Microsoft	$0.64	$0.80	2.6%	25.0%
Philip Morris	$2.88	$3.08	3.5%	6.9%

* Prices 7/6/2012

Even Apple Computer, never having paid a dividend previously, has instituted a payment to shareholders in 2012

Of course, future dividend increases will be dependent on continued earnings growth. Changes in current tax policy will have an effect as well. For example, if dividends currently taxed at 15% were to be taxed at a sharply higher rate, dividend policies would likely change. We find it highly unlikely that the President and/or the Congress will allow dividend taxes to dramatically increase on 12/31/12 for all investors. Stay tuned.

As we have said many times in the past, we invest our client funds for the long-term, typically with a 10+ year time horizon. This has proven successful for those who have been with us over time. In the short-term however, the market may provide a bumpy ride. Specifically, Standard and Poor's suggests that second quarter earnings may likely be challenged due to slower growth and stubbornly high unemployment. Perhaps this is why, in addition to the headwinds described earlier, the stock market has recently given up some of its significant first quarter gains. To date, 85 of S&P 500 companies have lowered

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earnings guidance for the upcoming quarter and, in some cases, the remainder of the year. Many have attributed the reduction to a less-than-rosy outlook for Europe and China.

While we are wary of the many headwinds facing our economy, we are not convinced that we are in for another 2008-type collapse. “Folding the tent” or “stuffing the mattress” with money are not appropriate strategies for long-term investors as market-timing, more often than not, is a loser’s game. We do think, on the contrary, that stocks are reasonably priced if not slightly undervalued, especially when compared to other investment alternatives. For this reason, they remain a core element of GSI client portfolios.

We recognize that objectives, risk tolerance and, subsequently asset allocation, are unique to each of our clients. We also understand that these, along with solid security selection, are what separate us from our competition. Thanks to all who have brought or referred business to us over the years.

Notable Yogi Berra Quotes

“If the world were perfect, it wouldn’t be.”

“Most of our future lies ahead.”

“My wife complains that her clothes are so old that they were made in the U.S.”

“Baseball is ninety percent mental and the other half is physical.”

“He hits from both sides of the plate. He's amphibious.”

“Even Napoleon had his Watergate.”

“I'm not going to buy my kids an encyclopedia. Let them walk to school like I did.”

“If you ask me anything I don't know, I'm not going to answer.”

“If you come to a fork in the road, take it.”

“It ain't the heat, it's the humility.”

New 401(k) Fee Disclosures Coming Soon

Thanks to a new rule issued by the Labor Department, over the next couple of months you will begin receiving reports that for the first time flesh-out out all the fees you are being charged on your 401(k) plan. This change will be viewed positively as all costs should be spelled-out in plain English rather than buried within a 200 page plan document and/or numerous mutual fund prospectuses. For employees of large firms, such fees are often reasonable, but for smaller firms, they can amount to as much as 3% or more.

Many of you may have no idea what expenses are deducted from your 401(k) plan. In fact, in a recent study by AARP, nearly 70% responded they were charged nothing, when, in fact, that was not true.

Expenses disclosed will fall into 3 categories.

1. *Plan Administration Fees* – these are fees for day-to-day operation of the 401(k) plan, such as record keeping, accounting, legal and trustee services. A majority of larger firms will either include these expenses in the investment fees or pay for them directly, leaving no charge to individual participants. For smaller plans, these fees are often borne by the individual participants and can be as high as 1-2%.
2. *Investment Fees* – these are associated with the cost of managing the investments. These fees are typically assessed daily as a percentage of assets invest ed. On some funds these fees can be 1.5% or more annually. Investment fees are disclosed as expense ratios in the prospectus, but it is difficult to determine the total amount when you are invested in several funds.
3. *Individual Service Fees* – these are fees associated with optional features offered under a 401(k) plan and are charged to an individual selecting a particular feature (e.g. a loan from the plan).

What to do

We suggest that you take a look at these new disclosures carefully. If you participate in a 401(k) plan provided by your current employer that has a company match, there is almost no better retirement savings tool than to continue participating in that plan, even if the fees are somewhat high. However, if you still have a 401(k) plan with a former employer, you may want to consider these costs in determining if it is best to remain with this plan.

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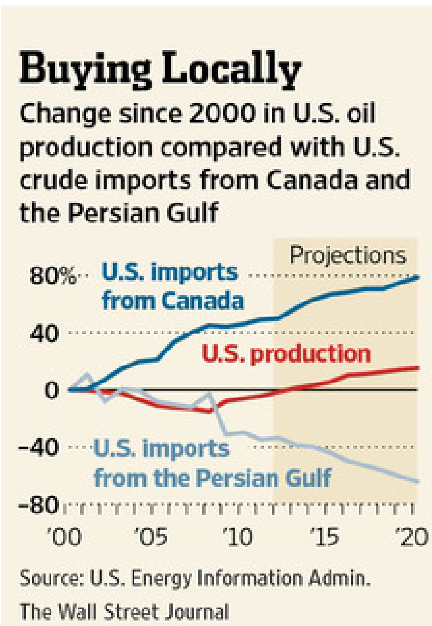
Please call us if you have any questions upon receiving 401(k) plan disclosures from current and former employers and we will assist you in any way we can.

A Parting thought

One last thought pertains to a potential "game changer" we mentioned in an earlier newsletter. Our energy production in this country has been growing, especially in the form of natural gas and oil. Much of this is attributable to the expanded use of fracking technology. This, coupled with Canadian imports, means our energy dependence on Persian Gulf oil is in decline. According to the U.S. Energy Information Administration, "nearly half of the crude oil America consumes will be produced at home by 2020 with 82% coming from this side of the Atlantic." This is shown in the chart below:



Decreased dependence on foreign oil could have a dramatic impact on the U.S. economy going forward. This will certainly create opportunities for investment. Stay tuned.

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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.