MARKETVIEW

THIRD QUARTER 2015

INVESTMENTS

A Modern Day Greek Tragedy

The "Greek Tragedy" is a form of theater that arose in ancient Greece as far back as the 5th century BCE. The word tragedy is thought to have evolved from an Ancient Greek hymn, translated to English, entitled "Song of the Goats". The playwright Aeschylus was said to have established the rules of the tragic drama and he created the trilogy, a series of three plays that lasted all day from sunrise to sunset. According to Wikipedia, "at the end of the last play, a satyr play was staged to revive the spirits of the public, possibly depressed by the events of the tragedy".

Are we in the midst of a modern day Greek tragedy? Are there "goats" managing the financial affairs of this small euro-zone country who have been allowed to affect the world financial markets? How long will this crisis drag on until it is solved? Will some satyr play-like moment occur that lifts the spirits of the public depressed by the events of the tragedy? We don't think Angela Markel (German Chancellor) or Mario Draghi (Italy-President European Central Bank) know either, but they must be getting tired of a problem that has been going on for years.

The Greek problem, along with a weakening Chinese economy, the potential for a Fed interest rate hike, the strong dollar, and plummeting commodity prices has influenced our financial markets. This has caused increased volatility and uncertainty in common stocks and resulted in a flat market so far this year. Uncertainty tends to upset the stock market, but as problem issues become resolved, the stock market tends to settle and longer term trends re-establish themselves.

One area that seems to be heading toward resolution is the issue of domestic interest rates. For about two years our financial markets have attempted to diagnose the direction and magnitude of a change in interest rates. Without question, the domestic interest rate trend has changed this year. Interest rates are rising. After dropping to 1.63% in early February, rates on 10 year U.S. Treasury bonds have risen to about 2.46%. On the same basis 30-year U.S. Treasury bonds have risen to 3.24% from 2.25% Chairman of the Federal Reserve Board Janet Yellen recently stated that the Fed would begin raising short-term interest rates this year. Due to low inflation and slow economic growth, she stated that a rate increase would be modest and likely once this year. The markets have greater certainty regarding the Fed's policy on a change in interest rates.

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GS Investments, Inc. Largest Stock Holdings 6/30/2015	
Securities	**Pct.**
Walt Disney Company	3.24%
Wells Fargo and Company	3.14%
Apple Incorporated	3.13%
PepsiCo Incorporated	2.84%
VISA Incorporated	2.83%
Dow Chemical Company	2.73%
Berkshire Hathaway Class B	2.63%
Honeywell International	2.61%
Boeing Company	2.54%
Williams Companies	2.44%
Express Scripts Incorporated	2.43%

The Chinese problem is also important for the U.S. economy but is harder to diagnose. One reason being the economic statistics coming out of China are not reliable. Additionally, it appears as if the Chinese are moving to emphasize a consumer driven economy more than in the past. This transition from infrastructure and export driven to consumer driven has not been easy. Economic activity has slowed and although volatile, financial markets have been making a gradual adjustment. This problem may continue for some time and will no doubt affect our trade with China. But where trade with China may be less rewarding, a new trade relationship may be developing. The Trans Pacific Partnership that Congress recently granted the Obama administration gives the President the authority to negotiate an agreement with 11 Pacific Rim countries as well as Canada, Mexico and Australia. These countries together cover approximately 40% of the global economy. Drug manufacturers especially have an important stake in a trade accord. If an agreement is reached and approved by all involved, it could have a significant long-term influence on the U.S. economy.

More than a year ago, we wrote that fracking in the United States would be a game-changer for the global energy industry and specifically for the domestic economy. It has led to lower energy prices world-wide and less imports to the U.S. from the Middle East. The price of a barrel of oil has dropped from $107 to $40-$60. This has a huge influence on the world economy as well as stocks in the energy industry. The energy markets are continuing to adjust to this new phenomenon with the Middle East, Russia and Venezuela on the losing side and the U.S. benefiting overall.

Finally, the change in the value of the dollar relative to other currencies has been a headwind for many internationally focused U.S. companies. Our currency has become more valuable, and has been used as a "safe haven" for foreign wealth, both sovereign and individual. This has made our goods more expensive, and our exports have suffered. Where the dollar stabilizes is difficult to determine, but it is reasonable to think that further appreciation will be moderate and our international companies will adjust.

The key to our financial markets will be domestic economic growth and corporate profitability. Our view is that following a slow first half of this year, our economy will improve during the second half and into 2016. Corporate profits should continue to rise in the single digits this year, dragged down by energy, and at a rate somewhat higher next year. Commodity related companies will continue to experience headwinds, but the consumer should

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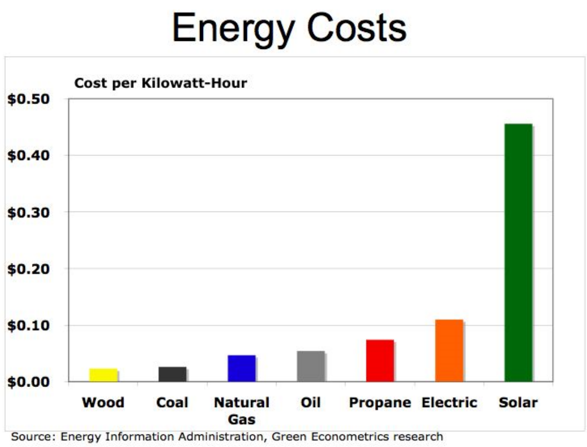
benefit. We feel the common stock market is slightly undervalued and should experience high single digit positive results going forward from the time of this writing. Higher interest rates will put pressure on bond prices, but perhaps not as much as the consensus believes.

As for Greece, it is hard to believe that there will be a revival of the spirits of the public. Tough times may continue for citizens of that country. Lender countries may give in somewhat on the current debt, but it is hard to see how they would continue to fund additional debt spending. It will most likely be a tough slog for those accustomed a habit of overspending.



Natural Gas Overtakes Coal

According to SNL Energy Company Research, in April of 2015 for the first time, the electricity generated in the U.S. from natural gas exceeded that generated by coal. Natural gas plants generated 31% of the county's electricity, up from 22% five years ago. Meanwhile, electricity from coal has fallen to 30% from 44% over the same period.

As mentioned earlier, the use of coal in the U.S. has been on a steep decline and replaced largely with natural gas. Fracking has increased the reliable supply of natural gas and the price of gas has dropped considerably as a result. This combined with the implementation of EPA regulations on coal plants has led to a dramatic shift in electricity production from coal to natural gas.

Meanwhile, China is still the number one producer of coal, mining 4 times as much as the U.S. In addition, it consumes more than the rest of the top 10 producers combined. Historically, U.S. producers have exported coal to China, but a strong dollar has limited exports recently, further limiting coal production in the U.S.

NOTABLE QUOTES

"Experience is the name everyone gives to their mistakes."

Oscar Wilde

"That government is best which governs the least, because its people discipline themselves."

Thomas Jefferson

"If all the economists were laid end to end, they'd never reach a conclusion."

George Bernard Shaw

"Under capitalism, man exploits man. Under communism, it's just the opposite."

John Kenneth Galbraith

"Wealth consists not in having great possessions, but in having few wants."

Epictetus

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This has been very tough on the U.S. coal firms. The U.S. Energy Information Administration's 2014 annual report lists four companies as producing roughly half of the total U.S. output. These firms are Peabody, Archer Coal, Cloud Peak Energy, and Alpha Natural Resources and have declined in value by 98%, 99%, 82%, and 99% respectively from their post recession highs 5 years ago.

Fortunately, we have stayed away from coal stocks despite numerous calls from the "experts" that the coal market had bottomed out. Instead, we have focused on companies with large natural gas exposure (e.g. Williams, the Alerian ETF, and even Conoco) which have held up reasonably well or even increased in price (Williams) as the rest of the energy sector has declined.

"OUR GREATEST COMPLIMENT IS YOUR REFERRAL."

GS INVESTMENTS 20 Years & Growing

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GSI TENETS

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 owners, Glenn H. Steinke, C.F.A., 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 20 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 office 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 Prior to joining GS Investments, Greg spent 15 years at Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Here 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.

CLIENT COMMUNICATION

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.