MarketView

Third Quarter 2017

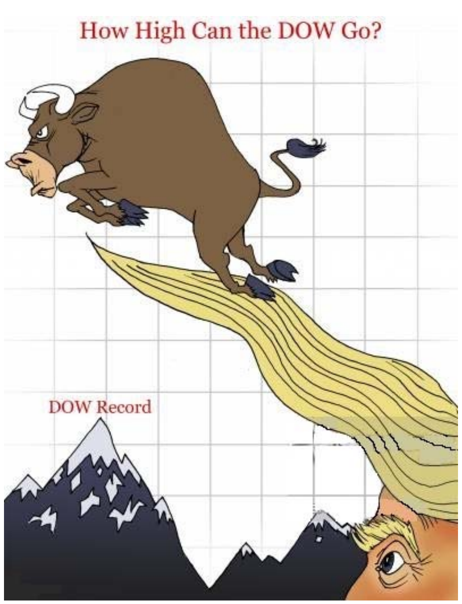
GS INVESTMENTS

Themes for 2017 and Beyond

So far, 2017 has not gone as many predicted. Many stocks initially soared after the election due to the expectations of the Trump Agenda (e.g. tax cuts, deregulation, infrastructure spending). The stocks with most to gain from those policies (energy, financials, retail, and construction) have since reversed course as some of his main agenda items have stalled. This has left many scratching their heads in search of reliable investments for the remainder of 2017 and beyond.

Finding the best stocks to buy and hold for the rest of 2017 requires identifying the major themes of the year. Then, you'll need to locate stocks that are most likely to benefit from these themes.

Obviously, there will be multiple stocks that will profit from each theme, helping to diversify one's portfolio while simultaneously benefiting from these all-important market movers.



1. *The Donald Trump Effect*

There is very little middle ground when it comes to how people view our new president. People seem to either love him or hate him, and it is this dichotomy that's signaling significant changes in our country.

So far, Trump's largest impact to the economy has been his focus on deregulation. In his first 100 days in office, he rescinded more regulations via the Congressional Review Act than any other president. The economically relevant regulations Trump loosened include government contracting rules, energy regulations, and financial policies.

Perhaps the largest beneficiaries of deregulation this year are the manufacturing and energy sectors. According to the Washington Times, "Federal regulations siphon an estimated $4 trillion a year out of $18 trillion in the U.S. economy. However, the immediate impact of fewer federal rules is hard to gauge in many industries.

After-tax manufacturing profits soared nearly 20% in the first quarter of

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GS Investments, Inc.

Largest Stock Holdings

6/30/2017

Securities	Pct.
Apple Incorporated	2.19%
VISA Incorporated	2.17%
Honeywell International	2.09%
PepsiCo Incorporated	2.07%
Berkshire Hathaway Class B	2.05%
Home Depot Incorporated	2.03%
Wells Fargo and Company	2.01%
Dow Chemical	1.97%
The Walt Disney Company	1.93%
Microsoft Incorporated	1.89%

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2017 according to the S&P Outlook. The "deregulation" portion of the Donald Trump theme points toward energy, manufacturing and finance sectors as holding some of the best opportunities for the next 12 months.

Possible repatriation of corporate cash held overseas ($7—$8 added to S&P 500 earnings), along with the president's plan for tax reform, will provide additional domestic capital for firms to put to work. This additional investment should see earnings, and subsequently stock prices, rise in the long run.

2. Climbing Interest Rates

Stocks have continued to push higher despite the rising interest rate environment. The Federal Reserve has already raised rates twice this year. Unlike past Federal Reserve boards, this one is very clear about what to expect regarding interest rates. They have stated that there will likely be three interest rate increases in 2017, meaning there's a very high probability that one is coming in the fall. This new transparency is designed to avoid any shocks to the system that may trigger another financial crisis.

The one thing that could derail the upward trend in short-term interest rates is inflation. Remember, climbing inflation is the economic justification for interest rate increases. Inflation however, has recently slowed down and is currently below the Fed's stated goal of 2%. Should inflation continue to slow, interest rate increases may be delayed in response.

Higher interest rates work to lift the earnings and subsequent valuations of banks and financial companies as a higher interest rate environment allows these companies to charge borrowers more. A combination of higher rates and deregulation acts as a double shot of adrenalin to the majority of the financial sector.

3. International Stocks

International stocks, as measured by iShares MSCI EAFE ETF (EFA) and iShares MSCI Emerging Markets ETF (EEM) have advanced even more sharply during the first half of 2017, returning 18.7% and 17.8%, respectively. Many expect this trend to continue throughout 2017 and into 2018.

Notable Definitions

Political Correctness

A doctrine fostered by a delusional, illogical minority.

Secret

A story you tell to one person at a time.

Egotist

Someone who is usually me-deep in conversation.

Committee

A body that keeps minutes and wastes time.

Tomorrow

One of the greatest labor saving devices of today.

Yawn

An honest opinion openly expressed.

Inflation

Cutting money in half without damaging the paper.

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Specifically, the emerging markets continue to benefit from steady economic growth and an ever-increasing amount of capital from developed nations, sent to chase profits there.

European stocks have benefited from the removal of a substantial degree of uncertainty (the French election), an improving macro and earnings outlook, and reasonably priced valuations. All in all, many feel that there is opportunity to be had in Europe, an area we feel is well represented in the previously-motioned, EFA ETF.

Although we have been underweight in international stocks for the past two years, growth opportunities in the sector prompt us to strengthen our exposure as we move forward.

The Disconnect between Unemployment and Wage Inflation

Most economists believe that when the supply of something goes down, then the price of it rises. This concept has certainly applied to labor and wages over time. In boom times, when unemployment is low, wages go up as employers compete for workers and the available labor pool dwindles. Recently however, there has been a disconnect. The Federal Reserve continues to look for opportunities to raise rates in an effort to ward off potential inflation. Currently however, the low unemployment (4.3%) has yet to pressure overall wages and inflation has once again dropped below the Fed's target of 2%.

With 6 million open positions in the U.S. and the unemployment rate so low, many have wondered how wage inflation is not notably higher. There is an argument that there is a hidden supply of labor that is not reflected in the unemployment rate. Here are some statistics from a recent study of the National Bureau of Economic Research that may support this contention:

- While the current unemployment rate of 4.3%, is the lowest its been since February, 1970, the Labor Participation Rate of 62.7%, is also the lowest its been since December, 1977.
- 50% of prime working age (18-64), American men are currently out of the work force.
- 45% of employed, prime working age (18-64), American men, do not have full-time jobs.
- 13% of prime working age (18-64), American men, are currently enrolled in Medicaid.
- 41% of non-disabled, American adults on Medicaid do not have jobs.

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- 60% of non-working, American Men (18-64), currently receive federal disability benefits.

Perhaps much of the current disconnect between unemployment and wage inflation is attributable to a greater number of "unemployed" people in this country than thought. Although its true that many of the baby boomers are retiring, it's also true that the number of employed, able-bodied, prime working age American men is strikingly low relative to the total pool of workers. It is also true that the number of people filing for disability and Medicaid have skyrocketed since the removal of the "work requirement" in 2012.

Perhaps the reason for the lack of upward pressure on wages is relatively straightforward; there are a greater number of truly unemployed people than is being represented.

333 South 7th St, Suite 3060
Minneapolis, Minnesota 55402
Ph (612) 371-0590 Fax (612) 371-9869
john@gsinvestments.com glenn@gsinvestments.com
greg@gsinvestments.com sheri@gsinvestments.com

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 24 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 25 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.