MarketView

Second Quarter 2019

Goldilocks, is that you?

The U.S. economic outlook is healthy according to many key economic indicators. The most critical of them all is gross domestic product (GDP) which measures the nation's production output. GDP growth is expected to remain between 2% to 3% in 2019 and 2020. The unemployment rate is expected to range between 3.5% to 4% over that time period as well. Core inflation, excluding the volatile food and gas sectors, is fairly tame and is expected to stay between 1.5% and 2.2% between now and 2021. The core rate has remained below the Fed's 2% target inflation rate providing insight as to why they may likely cut short-term interest rates between .25% and .5% during the second half of 2019. With this in mind, one has to ask, is Goldilocks really here to stay?

The answer is likely not. The biggest reason for the recent mild deceleration in growth is the anticipation of a drawn out trade war with China and the eventual slowing of consumer spending. While Goldilocks may not still be at the table, she has certainly not left the room.

U.S. manufacturing is forecast to increase faster than the general economy. The MAPI Foundation says increased capital growth and higher exports will boost manufacturing. It predicts production will grow by 3.9% in 2019. It, like GDP, is expected to slow slightly to 2.4% in 2020 and 1.9%in 2021.

While MAPI expects economic momentum to ebb a bit this year, they believe that a trade/tariff agreement between the U.S. and China would help buoy business investment, manufacturing

GS Investments, Inc.
Largest Stock Holdings
6/30/2019

Securities	Pct.
VISA Incorporated	3.56%
Microsoft Incorporated	3.32%
Walt Disney Company	3.31%
Home Depot Incorporated	3.02%
Apple Incorporated	2.98%
Boeing Company	2.97%
Honeywell International	2.96%
Berkshire Hathaway Class B	2.93%
Stryker Corporation	2.92%
PayPal Holdings	2.74%

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activity, and with it, a strong labor market and consumer spending. This would most certainly lead to higher stock prices. This possibility was given more credence as rumors of successful meetings between Presidents Trump and Xi at the recent G20 summit circulated. Regardless, an actual deal in writing will be required to build confidence and push the markets significantly higher.

Cautiously Optimistic

" I've moved from being ***cautiously optimistic*** to being ***optimistically cautious***. "

With the Standard and Poor's 500 Index up another 18.5%, through 6/30/19, many wonder as to whether or not the equity markets can continue to advance.

Our thought is that the U.S.– China trade situation will be resolved within a reasonable period of time. Also, we believe that the Federal Reserve Board (The Fed) will stay true to its recent commentary, lowering interest rates at least once before year-end. In order to be comfortable with a move of this nature, we believe the Fed must be comfortable with the rate of inflation, in both the short and medium-term.

If true, bonds and other income-related securities will likely struggle to offer meaningful yields making both bonds and bank stocks unattractive. However, low yields could push investors into dividend and growth stocks alike.

Although growth may mitigate a bit over the next couple of quarters, we believe that the resolution of the trade issue(s) and lower interest rates, may overcome the market impediments, pushing corporate earnings and stocks higher still. Time will tell.

In short, we remain cautiously optimistic as we move into H2 2019 and into 2020.

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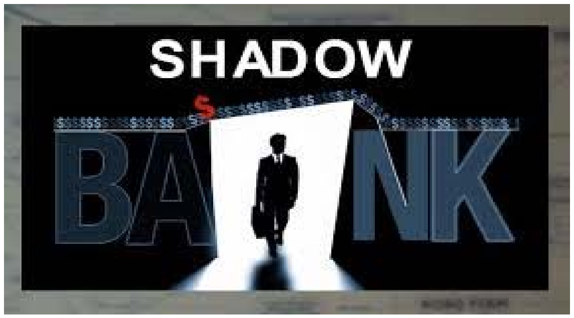

Shadow Banking—A building concern

Growth in the world's $70tn shadow banking system, according to the International Monetary Fund (IMF), represents a growing risk to financial stability. Additionally, they say, monitoring of the sector is inadequate.

The Washington-based fund indicated that lending outside the regulated banks has increased in the post-crisis world, partly because of greater banking regulation that has encouraged a shift of traditional banking activities into the shadows.

Gaston Gelos, division chief for global financial stability analysis at the IMF, said that while some elements of the shadow banking sector served a useful role, for example as a source of business lending and to improve market liquidity, too little was understood about the scale and nature of its activities. "We are worried about what we don't know. We don't have the data," he said.

The sector – which includes lending by institutions such as hedge funds, property funds and private equity, as well as through derivatives – grew rapidly in the runup to the financial crisis, and was partly blamed for the freezing of credit markets in 2007.

The IMF said that at the end of 2013, shadow banking accounted for around 30% of systemic risk in the U.S., the same proportion as its banking sector. It was lower in the UK and eurozone – 7% and 13% respectively – where the banking sector posed a greater systemic risk because of its size. "The U.S. shadow banking system appears to contribute most to domestic systemic risk; its contribution is much less pronounced in the euro area and the United Kingdom," said Gelos.

The IMF said shadow banking growth in emerging markets was also rising, notably in China, where it accounted for an estimated 35-55% of GDP and was expanding at twice the rate of bank credit. In emerging market economies, the growth of shadow banking size and activities in China stands out and warrants particular monitoring," the fund said.

No, we don't believe there is reason to panic or that immanent disaster is at our doorstep. Rather, we view this as another concern, often overlooked, that needs consideration as we move forward.

Notable Quotes

"The desire to perform all the time is usually a barrier to performing over time."

Robert Olstein

"Never invest in stocks with borrowed money or a faint heart. Both are fatal."

Manoj Arora

"Don't blindly follow someone, follow market and try to hear what it is telling you."

Jaymin Shah

"I love quotes… but in the end, knowledge has to be converted to action or it's worthless."

Tony Robbins

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S&P 3000

While many investors follow the Dow, it only represents 30 stocks.

Most asset managers follow the Standard and Poor's 500 Index which is made up of the largest 500 U.S. stocks. This July it hit a milestone 3,000 level. This is only 5 years after it hit 2,000 for the first time in August of 2014. Prior to that, it hit 1,000 for the fist time in February of 1998. Over the last 20 years, there have been many ups and downs, including major downturns in 2000-2001, 2008-2009, and December of 2018. However, the long-term trend has remained positive, overcoming these setbacks. This is a reminder that investing is best served with a long-term approach.

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

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.

GSI 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.