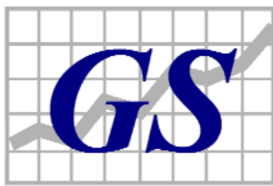


INVESTMENTS, INC.

MarketView

Fourth Quarter 2004

GSI Tenets

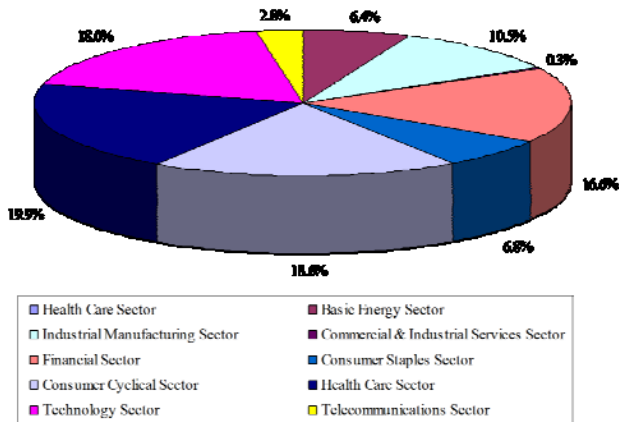
GS Investments, Inc. represents a logical choice for investment management for the following reasons:

1. A commitment to high-quality, personalized, client service.
2. Utilization of individual securities.
3. Balanced account manager utilizing bonds and stocks, their mix based on account objectives.
4. Use of large-cap growth stocks, adding a mid/small-cap "twist" for superior investment performance.
5. Extensive experience in the management of both individual and institutional investment accounts.
6. A competitive fee schedule.
7. Confidential environment.

Investment Strategy

1. Invest for the long-term.
2. Diversify investments.
3. Use fixed income securities for portfolio risk control and income.
4. Use equities to maximize portfolio return and offset inflation.
5. Manage portfolios according to each owner's risk parameters

Industry Breakdown—September 30, 2004



Top Ten Holdings (as a percent of Equities)

Wells Fargo & Company	2.09%
General Electric Company	2.05%
Exxon Mobil Corporation	1.92%
Home Depot Incorporated	1.92%
Microsoft Corporation	1.90%
Medtronic Incorporated	1.81%
Amgen Corporation	1.79%
Target Corporation	1.71%
Symantec Corporation	1.68%
3M Company	1.64%

Market Summary

The presidential elections, rising energy costs, the continued strength of US corporate earnings, interest rates and continued conflict in the Middle East; these are important factors influencing what is a very nervous market.

First, the election. As we have indicated before, the perception on the Street is that Bush is good for stocks (permanence of tax cuts) and that Kerry is good for bonds (tax increases and higher spending). Right now the race seems too close to call although President Bush holds a slight lead in most polls. Of interest is a projected (Schwab Research) division of Electoral College votes necessary to win the presidency:

Likely Bush States			Likely Kerry States		
State	***Electoral votes***	***% of vote to Bush in 2000***	***State***	***Eletoral votes***	***% of vote to Gore in 2000***
UT	5	72	DC	3	90
WY	3	71	RI	4	66
ID	4	71	MA	12	65
AK	3	68	NY	31	63
NE	5	65	HI	4	60
ND	3	65	CT	7	59
MT	3	64	MD	10	58
SD	3	61	NJ	15	58
OK	7	61	DE	3	57
TX	34	61	CA	55	56
KS	6	61	IL	21	56
MS	6	59	VT	3	55
SC	8	58	WA	11	52
IN	11	58	ME	4	53
KY	8	58	MI	17	53
AL	9	58	PA	21	52
NC	15	56	MN	10	51
GA	15	56	NM	5	50
CO	9	54	OR	7	50
VA	13	54	IA	7	50
LA	9	54			
AZ	10	53			
WV	5	53			
AR	6	53			
TN	11	52			
NV	5	52			
OH	20	52			
MO	11	52			
FL	27	50			
WI *	10	49			
NH	4	49			
Projected total	288		**Projected total**	250	

Notes: 270 Electoral votes are needed for victory.
* Wisconsin went to Gore in 2000

Source: In Our View, Schwab Soundview Capital Markets, October 11, 2004.

The national media has covered many issues pertaining to this year's elections. Receiving little coverage is the potential effect that a Kerry win might have on tax issues relating to dividends and capital gains. The current tax rate on each is 15% and that reduced rate became law under the Bush administration. Of the two, the most significant change was on taxable dividends. If these rates were moved back to pre-Bush administration levels, stocks (especially high dividend payers) would probably suffer. It might also slow the recent movement to increase dividends by significant amounts. For example, Microsoft has announced plans to pay a $3 dividend in December; Wells Fargo raised its dividend 50% last year. Conversely, a move back to the pre-Bush tax rates would put downward pressure stocks, making fixed income securities more attractive.

Other election year issues of concern are national security, foreign policy, the environment, judicial appointments, social security and Medicare reform. It is no wonder there is so much uncertainty and volatility in the financial markets with so much seemingly "on the line." In a few days, election issues will be behind us, but other uncertainties will remain.

Another issue pressuring the market is the rising cost of energy. Energy continues to be a virtual "all consuming" theme in the outlook for corporate profits, and energy companies should continue to account for an increasing share of upside earnings surprises (2004) and revisions (2005). While much has already been said about rising energy costs, there is little escaping the issue's pervasive importance. The bulk of upward earnings "surprises" now accrue to the energy sector, and we expect the bulk of any upward earnings estimate revisions through 2005 to be concentrated in energy. Our best guess is that we will see 6% S&P 500 earnings growth next year, with energy-sector earnings rising from 2004. Reasonable estimates for energy prices should be deemed a "moving target." Barring a complete collapse in the price of oil next year, the energy sector's share of U.S. profits will be significantly higher than it has been in recent years.

What we find interesting is that, even after a two-year rally, energy costs represent just 6% of estimated business costs, or one twelfth of compensation.* However, it looks as though the bulk of business energy costs will be passed on to consumers and not absorbed by the businesses themselves (think utilities and refiners). As such, the impact of higher energy costs on final demand (the consumer) appears the more important focus than business costs.

What about the strength of US corporate earnings? Many in our business expect calendar third quarter earnings to come in modestly above expectations for most sectors of the economy, although upside to earnings estimates for the energy sector might account for a 3% boost to earnings for the entire S&P 500 in the quarter.** EPS estimates for calendar 4Q are a concern despite our expectation of solid real GDP growth in the quarter. Positive forward earnings guidance may thus be spotty, heavily influenced by the price of oil. The takeaway? Stocks will continue to struggle in the face of increasing energy costs.

* Sector Earnings Blueprint, Citigroup Smith Barney October 4, 2004.

** Sector Earnings Blueprint, Citigroup Smith Barney October 4, 2004.

Interest rates and their effect on the bond market have continued to surprise most investors throughout the third quarter. Both may prove hard to forecast in the final quarter of this year and for 2005. The Federal Reserve has raised short-term interest rates three times this year, each increase being 1/4%. Because employment is expanding and the economy is growing, it is reasonable to believe the Fed will continue on its course, possibly lifting short rates to 2% by year-end and 3% some time in '05.

Earlier this year, investors expected longer-term rates to rise sharply. Initially, they did, but in late July and August they changed course, dropping sharply. Now, long-term rates seem to have stabilized. It would seem that long-term rates should eventually move higher, but energy prices may slow the expanding economy to a point where bond rates will become "range-bound" as has been the case with the stock market.

The unexpected moves in bond prices and energy prices plus political uncertainty have made portfolio balancing a difficult exercise. Earlier this year, it appeared as if bond returns would be negative and stock returns would be positive due to higher corporate earnings and an expanding economy. Through September 30, bond and stock returns were positive, but bonds returns won out over stock returns by about 1%. In tax exempt balanced portfolios (stocks and bonds) we have used some Real Estate Investment Trusts (REIT's) as bond substitutes and as diversifiers. This strategy has helped this type of account. REIT's have been the best performing sector of all for these accounts. Their income return has ranged between 5%-6% and they have provided modest capital appreciation.

The "wild card" in the entire equation continues to be the continued conflict in the Middle East. It represents ongoing uncertainty for the financial markets. How long will we (the US) be in IRAQ? In Afghanistan? What will be the total cost (in dollars)? Will there be further attacks on our domestic soil? The questions are many. The answers, less clear. One thing is for certain however, the market will remain at least partially distracted as long as there is international conflict.

We are cautiously positive regarding the remainder of this year and the coming year. With an expanding economy and growing employment base, stocks should provide superior returns going forward. We do however, expect continued high market volatility until there is a greater degree of visibility for the financial markets.

We are committed to providing our clients with high-quality service and superior performance over the long-term.

Glenn & John Steinke