



INVESTMENTS, INC.

MarketView

Fourth Quarter 2007

Notable Quotes...

Inflation hasn't ruined everything. A dime can still be used as a screwdriver. ~ Quoted in P.S. I Love You, compiled by H. Jackson Brown, Jr.

The real measure of your wealth is how much you'd be worth if you lost all your money. ~ Author Unknown

There are people who have money and people who are rich. ~ Coco Chanel

A bank is a place that will lend you money if you can prove that you don't need it. ~ Bob Hope

Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair. ~ Sam Ewing

Always borrow money from a pessimist, he doesn't expect to be paid back. ~ Author Unknown

Third Quarter Summary

The third quarter of 2007 provided plenty of excitement as mortgage uncertainties caused large declines in hedge fund valuations and prompted the Federal Reserve to lower interest rates. What made this time "different" was that the Federal Reserve addressed both weapons in its monetary arsenal — the Federal Funds Rate, the rate at which banks lend to other banks, and the Discount Rate, the rate at which banks borrow from the Federal Reserve.

Additionally, the 1/2% decrease in the Federal Funds Rate and the 3/4% reduction in the Discount Rate (in 2 separate moves) caught many in our business by surprise. Although the Discount Rate has traditionally been a useful tool for the Federal Reserve in its effort to ward off inflation, many in our industry feel that its actual value is minimal as banks historically are hesitant to borrow from the Federal Reserve. We believe that the recent moves, specifically the reductions in the Discount Rate, were an intentional attempt by the Federal Reserve to provide liquidity to the traditional lenders (banks) without providing liquidity to the speculators and hedge funds (brokerage firms and other non-traditional lenders).

These moves, however, are not without risks. First, there is the risk of overheating the economy as lower interest rates often promote higher

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*"Never mind the food.
Just bring us the bill so we can argue about it."*

GS Investments, Inc. Largest Stock Holdings

9/30/2007

Securities

Pct.

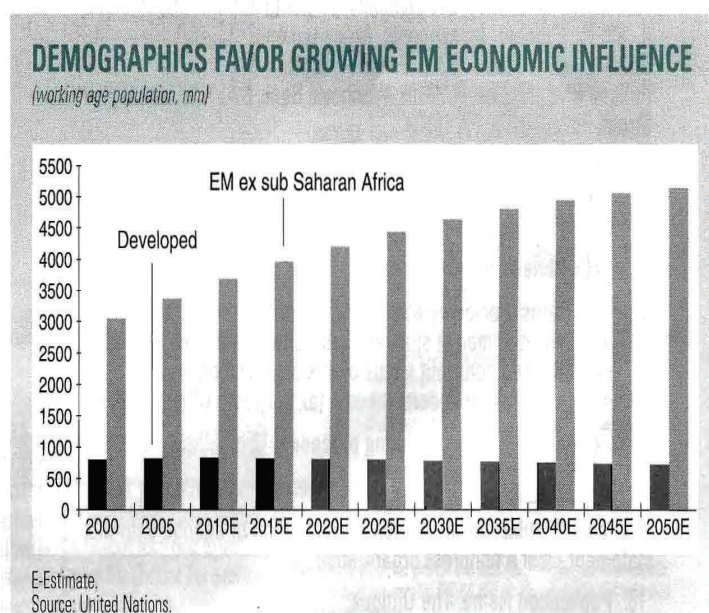
Ishares Trust MSCI EAFE Index Fund	4.20%
Ishares Trust MSCI Emerging Markets Index Fund	2.20%
Cisco Systems Incorporated	2.00%
Ishares MSCI PAC Ex-Japan Com Index Fund	1.96%
ExxonMobil Corporation	1.86%
Wells Fargo Company	1.79%
PepsiCo Incorporated	1.78%
American International Group	1.73%
Proctor and Gamble Company	1.71%
Target Corporation	1.67%

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growth. Second, higher growth tends to spur inflation, a primary concern of the Federal Reserve. The goal of the Federal Reserve is to spur economic growth without dramatically affecting a rise in inflation.

In any case, the recent moves have pushed equity valuations higher, both here and abroad. Relatively speaking, the S&P 500 Index is trading at 16.21 times current year (2007) operating earnings and 11.8 times next year's (2008) operating earnings. This compares favorably with its historical average of 19.5 times (since 1988) and 15.4 times forward operating earnings. By historical measures, domestic equities are not expensive.

One also has to consider the growth taking place in emerging markets. Looking ahead to '08, Standard & Poor's estimates economic growth in developed countries (U.S., Europe and Japan) at about 2%. On the other hand they estimate emerging market (Asia-ex-Japan, emerging Europe, Middle East & North Africa and Latin America) growth ranging from 5%-8%. China and India have yet higher growth rates. Core to longer-term growth in emerging markets is the growth demographic of the working age population. Using 2005 as a base and 2050 as an end-point, the United Nations estimates a growth factor of 52% for emerging countries compared to an 11% decline for developed countries. A chart showing this change is below:



Without question, emerging market valuations have moved dramatically higher. Just this year according to Standard & Poor's, emerging market equities have ad-

vanced 33.5%. So are they overvalued? Not so. Again, according to Standard & Poor's, emerging market equities sell at 13X earnings with an '08 earnings growth rate forecast of 13.7% compared to a developed overseas stock growth rate of 7.8% and a domestic stock growth rate of 12.2%. Clearly, there are different risks associated with investments in emerging countries. There is political risk, corruption risk and accounting risk. However, as global trade intensi-

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Tax Tips

Maximize your IRA Contributions In 2007 you can contribute \$4000 to your IRA, or a \$5000 "catch up" contribution if you are age 50 or older.

The choice between contributing to a traditional IRA or a Roth IRA depends on your situation. We can help you determine which may be the better choice for you. Call us if you're not sure. For 2007 the income limits increase for making contributions to a Roth IRA. For joint filers, contributions phase out if your income is between \$156,000 and \$166,000, up from \$150,000 to \$160,000 in 2006. For single filers in 2007, the range has increased to \$99,000 to \$114,000. For 2006, it was \$95,000 to \$110,000.

Charitable Giving Do you donate cash to charity? If so, you now need a "bank record," such as a canceled check, or a receipt from the charity in order to deduct the donation, no matter how small. If you want to deduct your gift, write a check or make sure to get a receipt.

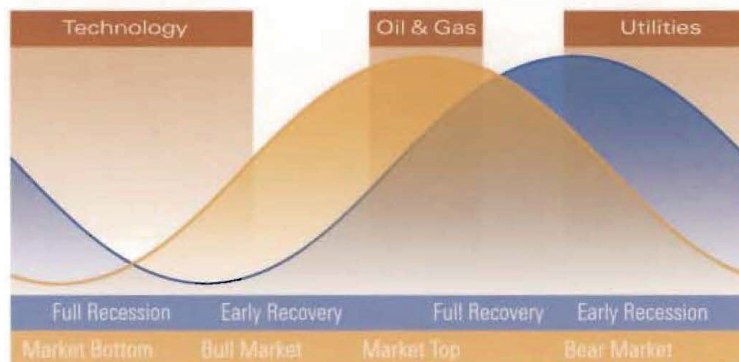
Direct Donations to Charities Consider taking advantage of a tax break scheduled to expire at the end of 2007. If you're 70½ or older, you can transfer as much as \$100,000 directly from your IRA to a qualified charity without being taxed on that money. The transfer counts toward your required minimum distribution. This provision also applied in 2006.

Review IRA Beneficiaries Reviewing the beneficiaries of your retirement plans is a good idea if you haven't done so in the past. If you have had a change in your family situation such as a marriage or birth of a child or grandchild, a review of this situation is a necessity. Please call us if you need assistance.

Did You Know...

About economic sector rotation?

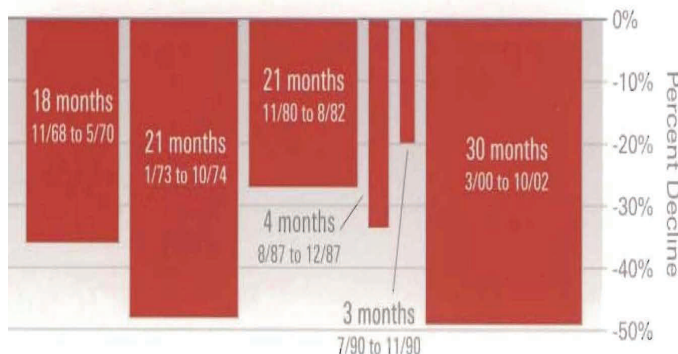
This theoretical model is based on Sam Stovall's *S&P's Guide to Sector Rotation*, which states that different sectors are stronger at different points in the economic cycle. The graph on the right shows these relationships and the order in which the various sectors should get a boost from the economy. The Market Cycle precedes the Economic Cycle



because investors try to anticipate economic effects. Copyright

©StockCharts.com. The chart to the right does not represent the performance of any specific security. Past performance is no guarantee of future results.

About downturns in the market?



The chart on the left shows major downturns in the stock market, as defined by periods during which the S&P 500 Index declined in value by at least 15%. The width of each bar represents the relative duration of the downturn from its beginning to the point of maximum decline. The depth of each bar shows the maximum decline.

About changes in dollar valuation?

The terms rising and falling, strengthening and weakening all indicate a relative change in the dollar's position from its previous level. When the dollar is strengthening, its value is rising in relation to one or more foreign currencies. This was the case in the late 1990s-the dollar appreciated significantly against foreign currencies. However, since peaking in 2001, the dollar has weakened against foreign currencies.

What Causes the Dollar's Value to Change?	
There are many factors—domestic or international—that affect the value of the U.S. dollar.	
Factors that may contribute to a strong dollar: <ul style="list-style-type: none"> • Strengthening U.S. economy • Declining U.S. trade deficit • Lower U.S. inflation • Geopolitical peace • Tightening U.S. monetary policy 	Factors that may contribute to a weak dollar: <ul style="list-style-type: none"> • Weakening U.S. economy • Widening U.S. trade deficit • Higher U.S. inflation • Political tension abroad • Easing U.S. monetary policy

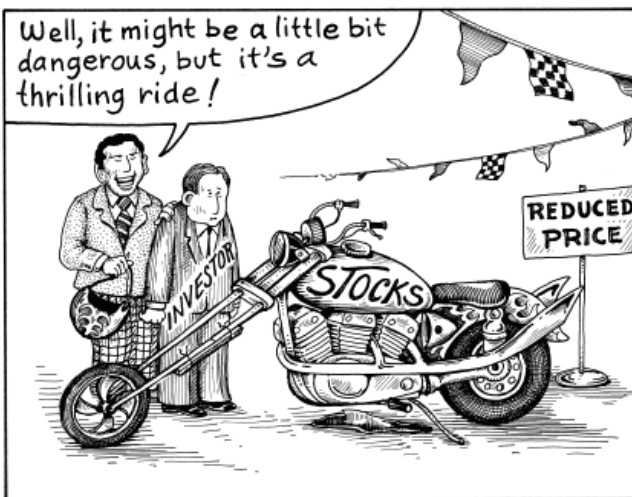
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fies, emerging countries will have to adopt global trading standards or their membership in the global community will be tarnished. Recent examples are lead in toys and poison substances in pet foods.

Lastly, for client accounts at GS Investments, Glenn and I continue to pursue a well-diversified equity investment strategy, emphasizing large-cap growth stocks. The increased exposure to international and mid-cap equities this year continue to pay off for GS Investments clients as we move through the second half of 2007.

Jason says that his friend, Benny, "is a walking economy." Why?

Because, "His hair line is in recession, his stomach is a victim of inflation, and both of these together are putting him into a deep depression."



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GS 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 two principals, Glenn H. Steinke, C.F.A., and John G. Steinke, M.B.A.

Glenn Steinke 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).

John Steinke offers a broad financial services background with 14 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.

GS 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.

GS 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.

GS 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.