GS
INVESTMENTS, INC.
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MarketView

Fourth Quarter 2009

Rocky road or double dip? Not ice cream, but the economy. That is what so many investors seem to be pondering. But, it could be neither. The upturn could be better than expected. That thought is hard to fathom given the experience of the last twelve months. Read the media publications. Hear the pounding drums of negativism presented daily on television. And then there are the reliable economists who continue to change their models based on the latest economic statistics. It is hard to think that anything good could come out of our domestic economy. Certainly, investors' wealth has been pummeled by the decline in our stock market. Even with upward movement since March, the domestic stock market is roughly 30% below its high in 2007. What a ride we have experienced!

"I know nothing about the subject, but I'm happy to give you my expert opinion."

Certainly, we have no crystal ball. And, suggesting that we have the ability to accurately frame the future, short or long term, is presumptuous. "The very best investors don't even try to forecast the future," states James Grant, editor of Grant's Interest Rate Observer, a well recognized investment publication. But our job is to manage investment funds of clients, so we have to position portfolios for future results, not past agony. That is what we try to successfully achieve, and that is what we have been working at in 2009. Fortunately, we have made some good decisions this year, not without frustration and not without mistakes, but on balance portfolios have come through the year with surprisingly good returns. This is probably due to discipline, experience, knowledge, good luck and patient clients who are disposed to put their trust in us. Thank you!

GS Investments, Inc.

Largest Stock Holdings

9/30/2009

Securities	**Pct.**
iShares BRIC Fund	3.26%
iShares Emerging Markets Fund	3.15%
Apple Computer Incorporated	2.80%
Wells Fargo Company	2.15%
Cisco Systems Incorporated	2.03%
Microsoft Corporation	1.82%
Costco Wholesale Corporation	1.79%
McDonalds Corporation	1.79%
General Mills Incorporated	1.78%
Qualcomm Incorporated	1.73%

So, where do we go from here in these troublesome times? We believe we should remain invested, but within guidelines that satisfy the risk appetite of clients. We were not so disposed earlier in the year, because as we reduced portfolio risk we held more cash than is normal. Repositioning portfolios in April and forward resulted in investing that cash to the point where we are now again fully invested.

Notable Quotes

"I am no longer an advocate of elaborate techniques of security analysis in order to find superior value opportunities."
Benjamin Graham

"Public sentiment is everything. With public sentiment, nothing can fail; without it nothing can succeed."
Abraham Lincoln

"There's no money in poetry, but then there's no poetry in money, either."
Robert Graves

"We hang the petty thieves and appoint the great ones to public office."
Aesop

"Time is a great teacher, but unfortunately it kills all its pupils."
Louis Hector Berlioz

"I think it's wrong that only one company makes the game Monopoly."
Steven Wright

In the Wall Street Weekend Journal, September 19-20, 2009, James Grant's article, From Bear to Bull, quoted English economist Arthur C. Pigou, "The error of optimism dies in the crises, but in dying it gives birth to an error of pessimism. This new error is born not an infant, but a giant." In other words, it is possible that at this time we are too pessimistic, and the road ahead could be better than expected. History bears this out.

From Grant's article again, he notes that in what has now been described as the Great Recession, GDP or gross domestic product has fallen 3.9% (inflation adjusted) compared to a 27% drop in the first year of the Great Depression. Our 9.8% unemployment rate is distressing but nowhere near the 25% rate in 1933. In reviewing periods of economic setback, he points to years following when the economy turned around. And the magnitude of the turnaround was directly influenced by the depth of the decline. For example, in the four years following the Great Depression the economy expanded at a 9.5% compounded annual rate and unemployment declined 10.6 percentage points, according to Michael T. Darda, chief economist of MKM Partners of Greenwich, Connecticut.

In the first quarter of 2009, our economy declined sharply, over 6%, but the second quarter has been recently revised and reported as a decline of 0.7%, better than first reported. A consensus third quarter view is that the economy will expand at a 2.5% rate. However, Allen Greenspan on an October 4 talk show suggested the current quarter is probably tracking above 3%. It is possible that forecasts are too low and will continually be revised upward. Certainly, that is the case for corporate earnings; analysts have been underestimating corporate earnings throughout the year. And as we noted in our last newsletter, earnings comparisons with previous periods will become more favorable as we move into the fourth quarter and 2010.

But the argument is that unexpectedly good earnings are due to cost controls, not increases in revenues. However, that point of view may be losing credence. Today, Alcoa reported better than expected revenues and earnings as did Costco Wholesale, yesterday. Today, September retail sales were reported as better than expected.
Are improved cost controls by corporations a last ditch effort before earnings take a hit due to poor growth in revenues? What if revenues actually improve? Could it

GSI ECONOMIC FORECASTS	
↑	**GDP** A big third quarter spurt, then moderate gains into "10
↑	**Interest rates** Prime, 3.25%; 10-year T-notes, rising to about 4% at year-end.
↑	**Unemployment** Peaking above 10% in 2010, few net new jobs till later in '10.
↔	**Inflation** Flat now to year-end, up 1.5% Dec. '09 over Dec. '08
↔	**Crude oil** $70 to $80/bbl through Oct., barring hurricane damage.
↓	**Trade deficit** Sharp drop to $405 bil.in '09, then surpassing $500 bil. In '10.

1 Kiplinger Letter, September 18, 2009.

be that is when earnings really jump because of increasing margins? That is an important question, and it is where we seem to be now, resting on that precipice of uncertainty. Without question, corporations have been "cleaning out the closet," but in doing so they have improved their positions for greater profit when the economy turns upward. As noted earlier, the economy seems to now be expanding at a better than 3% clip.

In addition, corporations have significantly improved their balance sheets. Example: Cisco, the networking giant which we own. It recently made an acquisition for $3 billion (not necessarily small change), but it had $38 billion in liquidity and it is cash flow positive. In other words, following the purchase, Cisco continues to add to its cash hoard. In many instances, highly liquid corporations are paying cash for their acquisitions; they don't have to borrow money or sell securities. And if they do, interest rates are historically low making borrowing an attractive alternative.

As for the securities markets, we noted earlier that we are fully invested in both stocks and bonds. As a consequence, client accounts have experienced excellent results in the third quarter and this is continuing so far this quarter. Historically, September and October have been treacherous months. We remember one day in October, 1987, when the stock market sold off more than 20%. Glenn still has a computer screen copied to remember that one. It could happen again, but interest rates were much higher then than they are now. Now, the surprise is that September was a strong month for common stocks and October is continuing that trend. Could the stock market be portending better times? We hope so.

IBM

One exercise we recently completed in our research activity is to look at each stock we own and review its performance relative to the S&P 500 during the past twelve months, especially when the stock market fell sharply and reached a bottom March 9.

We found interesting results, and intend to consider the information going forward when thinking about a future downturn in the economy when and if that happens. Two stocks, IBM and General Mills, stand out and they are shown in the graphs above and to the right:

General Mills

What is interesting is that each held its price very well in the downturn and, as a bonus, each raised its dividend. As we have noted before, we feel dividends are important (with some exceptions, e.g. Apple Computer) when owning a stock. Not do we only seek to make money for clients, but we want to avoid sharp downturns in account values when markets are distressed. That has been our objective in the past, and it will be our objective in the future.

GSI 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 16 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.

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.

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

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