GS INVESTMENTS, INC.
www.gsinvestments.com
612-371-0590

MarketView

Fourth Quarter 2011

Headlines in Europe Impacting Markets Here

'We'll do everything in our power to repay our debts until we default'

It seems that almost every day the direction of the equity and bond markets has been driven by the headlines in Europe. The European debt and banking issues are raising several questions and fears. Will the European Union bail out Greece? Will Greece default? If Greece defaults, are other countries (Ireland, Portugal) far behind? Will the Euro fall apart and how will it unwind? What about European bank exposure to Greek and other riskier sovereign debt? Ultimately there is the risk that these issues will impact us here in the U.S. and is, in our view, the main reason behind the 20% decline in the S&P from its May peak to the intra-day lows on October 4th.

We acknowledge these concerns and do not dismiss the problems in the U.S. and overseas, but we also believe that these risks need to be put into perspective. At the close of the 3rd quarter, the dividend yield on the S&P largest 500 stocks was higher than the yield on the 10 year treasury bond. The last time that happened was October of 1962 during the Cuban nuclear missile crisis. The economy may not be in the best shape, but the situation doesn't seem nearly as bad as it was in 1962 where we faced a real prospect of nuclear war.

According to Standard and Poor's as of 9/30/11, the stock market was trading at about 11.5 times expected 2011 earnings, well below the long term average of about 15 times earnings. U.S. banks are less leveraged and have much higher reserves than they had going into the banking crisis in 2008. In addition, non-financial companies hold a record $2+ trillion of cash on their balance sheets enabling them to weather any potential economic storms.

While the market could head lower from here, with a long-term perspective in mind, we see opportunity and value at these levels. When you consider that cash pays virtually nothing and 10 year treasuries lock you into a return of 2%, we believe that stocks offer relative value and should remain a significant portion of a long term portfolio even though they may be volatile in the short term. With that said, we also want to stress that we have taken steps to mitigate risk from the European situation. These include the following:

1. We have ensured that all money market funds are invested in treasury funds rather than corporate securities. Many corporate security money market funds own securities of European banks

GS Investments, Inc.
Largest Stock Holdings

9/30/2011

Securities	Pct.
Apple Computer Incorporated	2.95%
International Business Machines	2.11%
Exxon Mobil Corporation	2.11%
McDonalds Corporation	2.08%
Costco Wholesale Corporation	2.00%
International Business Machines	1.96%
General Mills Incorporated	1.79%
Microsoft Corporation	1.78%
Visa Incorporated	1.76%
Intel Corporation	1.75%
Proctor and Gamble Incorporated	1.73%

(Continued on page 2)

(Continued from page 1)

Notable "Steve Jobs" Quotes

"You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something—your gut, destiny, life, karma, whatever. This approach has never let me down, and it has made all the difference in my life."

"-sometimes life is going to hit you in the head with a brick, don't lose faith."

"Being the richest man in the cemetery doesn't matter to me. Going to bed saying we've done something wonderful...that matters to me."

"A lot of times, people don't know what they want until you show it to them."

" Creativity is just connecting things. When you ask creative people how they did something, they feel a little guilty because they really didn't do it. It seemed obvious to them after a while. That's because they were able to connect experiences they've had and synthesize new things. And the reason they were able to do that was they've had more experiences or they have thought more about their experiences than other people."

"Stay hungry. Stay foolish."

"That's been one of my mantras — focus and simplicity. Simple can be harder than complex."

and thus could lead to loss of principle in a European banking crisis.
2. We have eliminated bonds and preferred shares of European banks from client portfolios.
3. We have maintained an underweight position in financials which have underperformed relative to the market for the past year.
4. We have sought to ensure that the financials we have invested in have limited exposure to European banks.
5. Our international exposure largely excludes companies based in the European Union. Our one European Core holding is in Nestle which is based in Switzerland, not part of the Euro, and has benefited by being a "safe haven" country with a strong currency and banking system.

We live in a world that is interconnected and it truly is a global economy, so we cannot eliminate all risks associated with the European debt situation. However, we believe the steps outlined above minimize the potential for more significant losses if the European issues are not resolved in an orderly basis.

Depressed Interest Rates, Opportunity for States

Just as some countries of the European Union face debt problems, so do many states in the U.S. Revenues from sales taxes, corporate profits, and capital gains tend to plummet in a recession just as state expenses go up for welfare and unemployment benefits. Furthermore, as the stock market declines and interest rates fall, state pension plans fall further from their funding levels requiring larger taxpayer injections. Among the hardest hit are states whose economies are heavily reliant on manufacturing (e.g. New Jersey, Pennsylvania, Ohio, Michigan, Indiana, and Illinois). California has also been hit hard due to its unique tax structure (proposition 13) that has held property taxes artificially low in relation to the actual value of California property.

Much has been made in the press regarding state budget problems and difficult cuts in expenses. The protests on budget cuts in

(Continued on page 3)

(Continued from page 2)

Wisconsin come to mind. One area where states are significantly reducing their expenses is on the interest paid on bonds for items such as sewers, roads, and schools. Just as many Americans have refinanced their mortgages at lower rates, states are repaying higher interest rate bonds early and issuing new debt at lower rates. We feel that this will result in significant savings for states on their debt service. This is an easy save but is curiously getting almost no press coverage.

With Jobs Gone, What's Next for Apple?

As you know, on October 5, 2011 Steve Jobs passed away. Apple paid tribute to its leader calling him "a visionary and creative genius". He surely will go down as one of the most successful business leaders of our time and his greatness has often been compared to that of Henry Ford.

You are probably also aware that Apple is among our client's largest equity holdings. As we expected, there was an initial sell off in the stock on the news of Jobs' death. Since then, the stock has rebounded and trades near its all-time highs. Fortunately, while they may not be household names, Jobs leaves behind a very talented leadership team. While not a perfect analogy, we look at how successful Disney has been even though its creative genius, Walt Disney, has been gone for 45 years.

ECONOMIC FORECASTS	
↓	**GDP Growth** Slipping under 2% in '11 after averaging 3% in '10
↔	**Interest rates** No change likely through '12
↔	**Unemployment** Around 9% through year-end; trending down next year
↑	**Inflation** About 3.3% in '11, up from 1.5% in '10
↔	**Crude oil** Trading in the $85 - $90/bbl. range into Jan.
↑	**Retail** A holiday rebound will result in modest growth for '11

1 Kiplinger Letter, July 1, 2011.

Apple, under Jobs, has built quite a bit of momentum with a pipeline of product launches mapped out for the next several quarters. Analysts expect that this company can make between $35 and $40 per share next year and finish 2012 with between $125 and $150 per share of cash on its books. At $400, Apple trades below a market multiple with a bullet proof balance sheet.

Why We Own Utility Common Stocks

As was stated earlier, acceptable income returns are hard to find from money market funds, government and corporate bonds unless investing in below investment grade or "junk" bonds. So, where does one go to find acceptable income returns using quality securities? Utility stocks provide dividend income yields and represent good quality that answer this question. More than a year ago, we began to purchase utility (electric, gas and telephone) common stocks for two reasons: they are relatively safe and they produce relatively high dividend income returns. We decided to position accounts with utility names making up roughly 5% of the overall account.

(Continued on page 4)

(Continued from page 3)

From a diversification point of view, utilities comprise about 4% of the S&P 500, so our accounts are slightly over-weighted. Interestingly, utility common stocks have been good investments this year. They have provided positive total (price change plus dividend) returns when non-utility common stocks have provided negative returns and have been more volatile. We intend to continue to maintain our utility positions in this uncertain market.

Our greatest compliment is your referral.

GS Investments, Inc.
333 South 7th Street, Suite 3060
Minneapolis, Minnesota 55402
Phone (612) 371-0590 Fax (612) 371-9869
www.gsinvestments.com
john@gsinvestments.com / glenn@gsinvestments.com / greg@gsinvestments.com /sheri@gsinvestments.com

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 Glenn H. Steinke, C.F.A., and 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 18 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. John received his BA from Concordia College (Moorhead) and his MBA from the University of Minnesota.

Greg Cunningham comes to us from Minneapolis-based Ameriprise Financial, a national leader in financial planning with over 2 million retail clients and $300 billion in assets. Greg spent 15 years at Ameriprise, most recently in the asset management group. In this role 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 20 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.

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.