

GS INVESTMENTS, INC.

LARGEST STOCK HOLDINGS

9/30/2013

<u>SECURITIES</u>	<u>PCT.</u>
WELLS FARGO AND COMPANY	2.04%
BERKSHIRE HATHAWAY CLASS B	2.02%
EXXON MOBIL CORPORATION	1.93%
DOW CHEMICAL COMPANY	1.84%
PETSMART INCORPORATED	1.82%
VISA INCORPORATED	1.78%
MICROSOFT CORPORATION	1.74%
US BANCORPORATION	1.64%
HONEYWELL INTERNATIONAL	1.62%
EXPRESS SCRIPTS INCORPORATED	1.58%

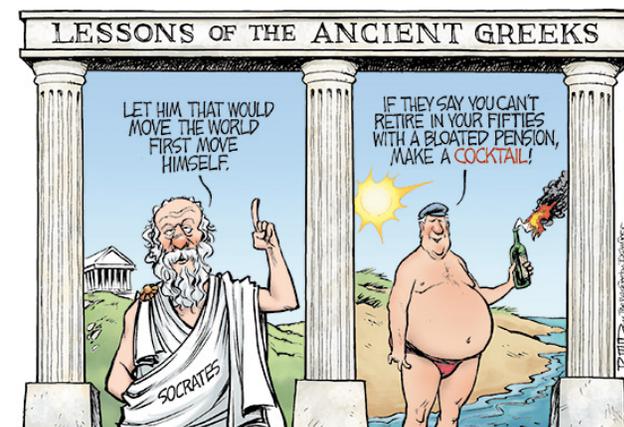
WATCH EARNINGS, NOT POLITICIANS

In a recent issue of the weekly financial publication, Barron's, an article was entitled, "Watch earnings, not politicians". This caught our eye, because we have been focusing on corporate earnings since the Great Recession, trying to avoid the "noise" produced by the media and our elected leaders in Washington. Needless to say, this is difficult because we are human and are influenced by these noise factors. In addition, markets are moved by mass psychology.

Think back one year ago when politicians and the media were beating drums on the danger of the "fiscal cliff". That lasted throughout the fourth quarter of 2012. This was when the threat of higher taxes on capital gains and dividends was being aired. As it turned out, fear of such changes were overblown. The same was true of the sequester which consumed most of the first quarter of this year. This cutback in government spending was expected to provoke damage to our fragile economy, but our slow growth in output continued to plod along and our marketplace made the necessary adjustments. Then came the "pre-mature" announcement that the Federal Reserve would begin "tapering" its QE3 program in September, scaling back its purchases of longer-term, fixed-income securities. We say pre-mature as shortly after, the Federal Reserve pulled back its language, catching many in our business off-guard. Not so surprisingly, the markets reversed course.

Now, we are in the fourth quarter of 2013, and the federal government has partially shut down, and there is argument about the deficit and a ceiling on government spending. Minute by minute, we are

bombarded with estimates of the effects of these current fears. Should investors ignore them? Of course not. However, they should be placed in perspective. The drama being played out in Washington and reflected in the media is, in part, grand theatre. Many have no doubt that any "crisis" will be averted but not until the last minute, leaving investors breathless, yet relieved until the next purported catastrophic event surfaces. What is left to cling to



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as all these events are taking place? Let's try corporate earnings. After all, they tend to drive the stock market and certainly have an important influence on the bond market, as well.

Our corporate leaders have done very well (and have been well rewarded) in managing their businesses coming out of the Great Recession. Balance sheets have improved dramatically and cash on hand is at record levels for many. U.S. banks have strong capital cushions, lower loan losses and much improved earnings. Corporate dividend increases have been rising at historically high rates and stock buy-backs have reduced the number of shares outstanding. This has caused the valuations of remaining shares to rise. These positive factors have resulted from strong increases in corporate earnings. Will this continue? That is the important question. Third quarter 2013 corporate earnings are now being reported, and forecasters are going on record for the fourth quarter and for fiscal-year, 2014. Two services that we follow are Standard and Poor's and Factset. They both track the estimates of Wall Street analysts and our outlook is supported by their work.

The rate of corporate earnings growth in 2013 has slowed, but absolute numbers remain positive. Prognostications for 2014 suggest an improving trend. This is good news if the outlook is accurate. What seems possible at this point is a "five and dime" scenario or about a 5% growth in corporate earnings in 2013 and 10% in 2014. The fourth quarter of this year, and possibly all of 2014, could experience earnings growth of about 10%. This is possible if economic growth in this country continues to stumble along at slightly less than 3%. However, all bets are off if the Washington wizards fail to settle issues on the budget and the debt ceiling. We think the odds favor some form of agreement to avoid defaulting on our country's indebtedness. The effect this would have on the international marketplace would be intolerable and would likely be long-lasting.

THE IMPACT OF TECHNOLOGICAL CHANGE

The changes that have occurred over the years are remarkable. Ask yourselves, did you have a laptop PC in 1993? Some did and some did not. How prevalent were high-speed, miniscule microprocessors? Virtually non-existent. It is most certainly true that Bill Gates (Microsoft) and Andrew Grove (Intel) changed our lives with software and hardware that allowed small business operators such as our-

ECONOMIC FORECASTS

GDP GROWTH

ABOUT 2.6% IN '14, UP A BIT FROM SECOND-HALF '13

INTEREST RATES

BY END '14, 10-YEAR TREASURY NOTES AT 3.1%: 30-YEAR MORTGAGES, 4.85%

INFLATION

2% THIS YEAR; IN '14, RISING SLIGHTLY TO 2.25%

UNEMPLOYMENT

ABOUT 7.5% AT YEAR-END; 7.1% BY END OF '14

CRUDE OIL

TRADING FROM \$90 TO \$95/BBL. BY YEAR-END

RETAIL

MODEST GAIN THROUGH YEAR-END; PICKING UP MOMENTUM IN '14

1 KIPLINGER LETTER, OCTOBER 11, 2013.

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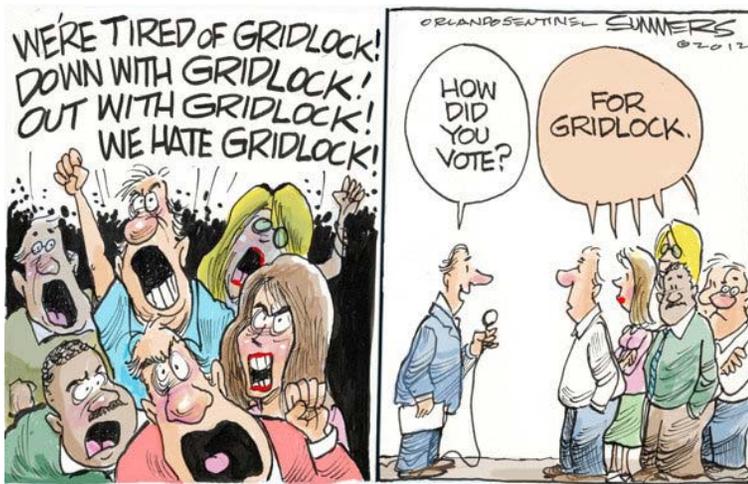
MARKETVIEW

THIRD QUARTER 2013

gs
INVESTMENTS

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selves, to not only operate but to flourish. Over the past 10 years, look how Steve Jobs and Apple Computer have changed our lives. Is it possible to navigate through life today without a cell phone? An iPad? An MP3 player? No way. The past few years have witnessed the emergence of social media. Our lives have been changed dramatically and permanently.

This year marked the death of George Mitchell. You may not recognize his name, but he was the petroleum engineer who developed fracking. This is no small feat as the U.S. is now producing

more oil and gas combined, than any other country in the world due to the implementation of this new technology. The price of natural gas has dropped dramatically, providing economic benefit to all. This will likely result in lower heating costs and cheaper, low-cost electrical generation. Kudos to capitalism!

Notably, all these individuals were Americans, two of whom have been known to be generous with their wealth. Bill Gates turned over a great portion of his money to the Gates Foundation, in order to enhance healthcare globally and to reduce extreme poverty worldwide. George Mitchell became extremely affluent due to the adoption of his fracking technology. He has since turned over the majority of his estate to the poor.

The United States may be having its problems, but it is still the greatest nation on earth. Don't sell it short, and don't be afraid to invest in its future.

NOTABLE QUOTES

"Uncertainty is certain to last."
Kiplinger Letter

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February."
Mark Twain

"The key to making money in stocks is not to get scared out of them."
Peter Lynch

"Never invest in anything that eats or needs painting."
Billy Rose

"Old men are prone to invest the futures of young men with their own past sorrows."
Horore de Balzac

"Goodness is the only investment that never fails."

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MARKETVIEW

THIRD QUARTER 2013



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OUR 20TH YEAR

2013 marks our 20th year in business. We can't help but feel good about the progress of GS Investments as we have now broken well above \$100 million in assets under management. Our team of four professionals is seasoned, having experienced the dot-com bubble and the Great Recession. In fact, one also survived the stock market crash in 1987.



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

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 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 20 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 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.