

MARKETVIEW

FOURTH QUARTER 2016



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Carousel, The Banks and the Election



"IF YOU'RE GOING TO CONTINUE TO WORK HERE, SMITHERS, YOU ARE GOING TO WEAR PROPER ATTIRE, UNDERSTOOD?"

In Rogers and Hammerstein's musical "Carousel," barker Billy Bigelow attempted to surprise and rob a banker walking on a dark path. Little did Billy know that the banker had a gun which he used to shoot and kill Billy. Billy had just learned from his wife that they were having a child, and had little money. In a musical soliloquy, Billy sang that he would somehow get money or die. For an unknown reason, he went to heaven and from above he witnessed the early life of his child. He was emotionally moved to sing to her, "When you walk through a storm, keep your head up high, and don't be afraid of the dark".

Banks and bankers have been in the news recently. John Stumpf, Chief Executive Officer of Wells Fargo, was called on the carpet by a congressional committee due to an out-of-control, employee incentive compensation plan. It seems that the plan had placed undue pressure on lower level employees and managers to meet unreasonable goals. This caused them to fraudulently open new accounts and credit cards, unknown to bank customers. He defended his position by stating that Wells Fargo had voluntarily investigated the infractions and fired roughly 5,300 employees over a five-year period. This, in the minds of the committee members (and the general public), was unsatisfactory. In addition to the previous action taken, the committee has pushed Mr. Stumpf to give up \$41 million of his compensation and stock rewards. With all that has happened, Mr. Stumpf has been forced to resign and he will be challenged to keep his head up high as he walks through this storm.

Deutsche Bank, a large German bank, has also been in the news recently. The U.S. Justice Department has cited them for claims stemming from the German lender's pre-financial crisis sales of residential mortgage-backed securities. The amount demanded by the Justice Department is \$14 billion, which would place the bank's capital position at risk. Ouch! More than likely, any settlement amount will be less. Regardless, the market for the stock has been roiled, to say the least.

GS INVESTMENTS, INC. LARGEST STOCK HOLDINGS 9/30/2016

<u>SECURITIES</u>	<u>PCT.</u>
VISA INCORPORATED	3.33%
PEPSICO INCORPORATED	3.07%
APPLE INCORPORATED	2.93%
BERKSHIRE HATHAWAY CLASS B	2.92%
MICROSOFT CORPORATION	2.91%
HONEYWELL INTERNATIONAL	2.83%
HOME DEPOT INCORPORATED	2.74%
BOEING COMPANY	2.73%
WELLS FARGO AND COMPANY	2.64%
INTEL CORPORATION	2.62%

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Bankers beware. Banks tend to be political animals, and hunting season is underway. Shots are flying and the game is fluent. Even Jack Lew, the nation's top banker as Secretary of Treasury, is being criticized for his role as a Citicorp executive during the financial crisis.

Since we are nearing the end of a strange election year, we thought it might be interesting to share recent commentary on the presidential candidates by Greg Valliere, Chief Political Strategist with Horizon Investments. Mr. Valliere mentions some potential wildcards that could influence the election. They are:

1. *Julian Assange*, the head of WikiLeaks, is promising to release 20,000 to 30,000 hacked e-mails that could prove embarrassing to the Clintons and the Democrats. His prior releases have highlighted the efforts of

the Democrat National Committee (DNC) to undermine the efforts of the opposing primary candidate, Bernie Sanders. This provided sufficient pressure to force former DNC head, Debbie Wasserman Schultz, to resign her position.

2. *Turnout*. Will the Sanders supporters show up at the ballot box? If so, in what number? Will Trump supporters be motivated to vote en masse?
2. *Terrorism*. Will another terrorism attack precede the election? If so, how might this influence voting?
4. *Trump's taxes*. Will this issue expand or die out?
5. *Obamacare*. Insurers are leaving exchanges in many states, Minnesota included, due to losses. Premiums and deductibles are jumping sharply, resulting in increases of 50% and above.

Valliere then opines that this may be a very close election, so much so that it could end in a tie and be left to the House of Representatives to elect our next President. In this case, the Vice President would then be elected by the Senate. Although it sounds far-fetched, Mr. Valliere believes that this scenario is a possibility.

NOTABLE PRESIDENTIAL QUOTES

"Believe you can and you're halfway there."
Theodore Roosevelt

"Most bad government has grown out of too much government."
Thomas Jefferson

"We can't help everyone, but everyone can help someone."
Ronald Reagan

"When you see a rattlesnake poised to strike you, do not wait until he has struck before you crush him."
Franklin Roosevelt

"Life takes its own turns, makes its own demands, writes its own story, and along the way, we start to realize that we are not the author."
George W. Bush

"Change is the law of life. And those who look only to the past or present are certain to miss the future."
John F. Kennedy

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The Economy and Another Earnings Season



Economic developments, interest rates and corporate earnings are all in focus as we enter the final quarter of this year. So far, recently reported economic statistics are improving. Second quarter Gross Domestic Product (GDP) has been revised upward to 1.4% from an earlier reported 1.1%. This has pushed second-half GDP estimates up toward the 3% range. The consumer continues to lead the charge, but capital spending continues to lag.

Despite the slow growth, more Federal Reserve presidents are calling for a rate increase. The popular thinking is for this to begin in the month of December. In anticipation of higher interest rates, bank stocks have risen and, not so surprisingly, utilities and real estate investment trusts have declined.

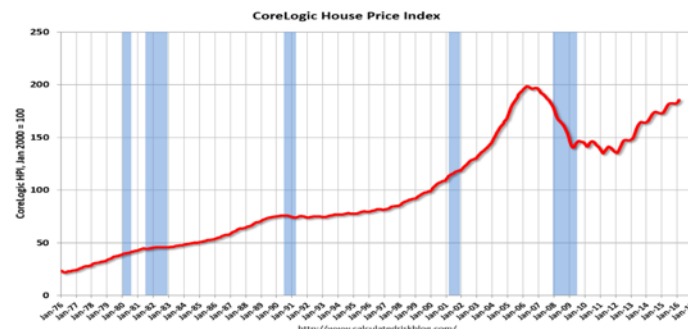
As for now, third quarter earnings are upon us. Some of the news has been good, some of it has been concerning. On a positive note, we have had reports on Pepsi, Costco and General Mills, each reporting earnings that have exceeded expectations. Of concern is the fact that only Pepsi had revenues that beat expectations; both Costco and General Mills missed estimates.

Another concern is industrial production, often a leading indicator for the economy. After two straight months of advances, the industrial production index declined .4% in August. This marks 14 of the past 20 months that the index has contracted. Although we look for things to improve going forward, we continue to keep a watchful eye here.

All in all, we maintain a cautiously optimistic outlook for 2017 as easier comparables, a more cooperative energy sector and, perhaps, a weaker dollar, might help strengthen a currently sluggish economy.

Food for thought

- The CoreLogic Case-Shiller index of national home prices was just .6% below its 2006 peak this past quarter. However, U.S. home ownership rate has declined to 62.9%, its lowest level since 1965.



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Debt/GDP	Annualized Gain (12/31/1951 - 6/30/2016)			
	Nominal GDP	Real GDP	Non-Farm Payroll	CPI Inflation
> 318%	3.4%	1.5%	0.7%	2.1%
160% - 318%	6.3%	3.2%	1.5%	3.6%
< 160%	7.5%	3.6%	2.3%	3.9%

Source: Liz Ann Sonders, Charles Schwab.

Liz Ann Sonders, writing for Charles Schwab, drafted a very interesting piece noting the relationship between total debt (public and private) and Gross National Product (GDP) growth. She notes GDP has been strong when indebtedness is less than 1.6X GDP, less strong from 1.6X-3.2X GDP and weak if more than 3.2X GDP (Please see the chart above).

On 6/30/2016, we were at 3.6X GDP. Sonders notes that recently the consumer has been reducing indebtedness while public debt has been increasing.

As interest rates rise, it's frightening to think about our country's ability to service its entitlement obligations, obligations that will take up an increasing share of the country's budget (Social Security and Medicare).



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GSI TENETS

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.

CLIENT COMMUNICATION

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.