

SIMPLY FRIGHTENING



"Today in school we learned about the three main branches of government: lobbyists, fund-raisers and media."

A recent Investor's Business Daily article, entitled "Sturdy Constitution," revealed a number of frightening findings that indict the entire U.S. educational system (grade school through college, including the Ivy League institutions). Specifically, the article highlighted a study done by the Annenberg Public Policy Center regarding student's basic knowledge of the function, limits and liberties found in the U.S. Constitution. What they found was simply frightening as it is clear that the majority of students throughout the U.S. know little about our constitutional government. Specifically,

- Only 26% of respondents could name all three branches of government.
- 33% could name only one branch of government.
- 33% of those surveyed could not name one of the rights guaranteed U.S. citizens under the Bill of Rights.

Perhaps a more serious indictment can be leveled upon our Secondary Educational organizations. Since 2005, over 28,000 undergraduates at 80 colleges and universities have been surveyed by the Intercollegiate Studies Institute. The primary focus of the studies has been to measure the civic literacy and constitutional knowledge of the average student. Their finding, to date? The average score on the Institute's civic literacy exam was roughly 54%; a failing grade at most schools. Even more disturbing was that adults with college degrees scored only slightly higher than the undergraduates.

Finally, the study showed that seniors at one undisclosed, elite school (this includes the Ivy League institutions), scored lower on average, than the freshman surveyed.

It's a wonder that many question the "value of a vote" these days.

GS INVESTMENTS, INC.

LARGEST STOCK HOLDINGS

9/30/2017

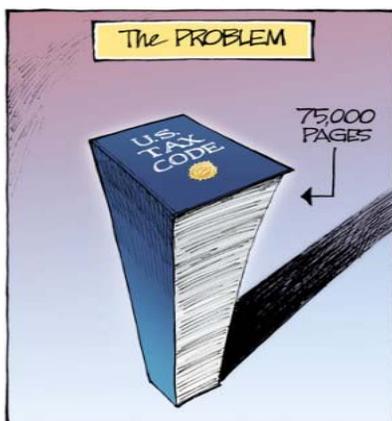
| <u>SECURITIES</u> | <u>PCT.</u> |
|----------------------------|-------------|
| APPLE INCORPORATED | 2.14% |
| BOEING COMPANY | 2.13% |
| VISA INCORPORATED | 2.11% |
| BERKSHIRE HATHAWAY CLASS B | 2.03% |
| HONEYWELL INTERNATIONAL | 2.03% |
| HOME DEPOT INCORPORATED | 1.97% |
| MICROSOFT INCORPORATED | 1.86% |
| PEPSICO INCORPORATED | 1.76% |
| DOWDUPONT INCORPORATED | 1.69% |
| STRYKER CORPORATION | 1.62% |

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TAX REFORM - INDIVIDUAL



Donald Trump has laid out his guiding principles for tax reform, but with few details and no indication where the tax brackets will be, it is hard to determine the impact to individuals and small businesses. At the same time, we have politicians on the other side of the aisle whose agenda includes universal health care, free college for everyone, and increased social security benefits, to be on par with Europe. All of these proposals have prompted intense debate regarding who should pay what and whether or not we, as citizens of this country, are receiving the commensurate benefits for the taxes we pay. It makes us think back to a while ago when a friend of ours from the United Kingdom stated that everyone complains about all the taxes they pay, then asked “Why can’t America afford to provide free health care, free college, and generous retirement benefits for everyone as is done in Europe”. It was a startling question that led us to look deeper into the topic.

Arguably, the group of countries with the most generous social benefits are found in Scandinavia. Therefore, we looked at the taxes they incur to pay for those programs. From the Organization for Economic Cooperation and Development (OECD), we find detailed and comparative information on taxes. It shows that the top income tax rate for the U.S. is 46.3% (this accounts for all federal income tax, social security, health insurance, and state income taxes – less deductions). On a comparable basis, the five Scandinavian countries have rates ranging from Norway’s relatively low 38.7% to Sweden’s much higher rate of 57.1%. The average for Scandinavia is roughly 50%; not much more than the U.S. The key difference is the income level where those top rates take effect. In the U.S. the top rate starts at \$418,000 of household income. In contrast, all Scandinavian countries have their top rates kick in between \$70,000 and \$100,00 in income. According to a study done by the BBC, the tax burden on the average family with two kids in most of Europe, is 2-3 times higher than it is in the U.S.

Free healthcare, college, and increased pension benefits all sound nice but they do come at a steep cost. There seems to be a choice, low taxes or lots of benefits. This is why we have elections.

TAX REFORM - CORPORATE

Both Republicans and Democrats agree that corporate tax reform is greatly needed. In a recent interview on CNBC, Christine Lagarde, the French

NOTABLE CELEBRITY QUOTES

“Smoking kills. If you’ve been killed, you’ve lost a very important part of your life.”
Brooke Shields

“I’ve got taste, it’s inbred in me.”
David Hasselhoff

“We are all born ignorant, but one must work hard to remain stupid.”
Benjamin Franklin

“Don’t let schooling interfere with your education.”
Mark Twain

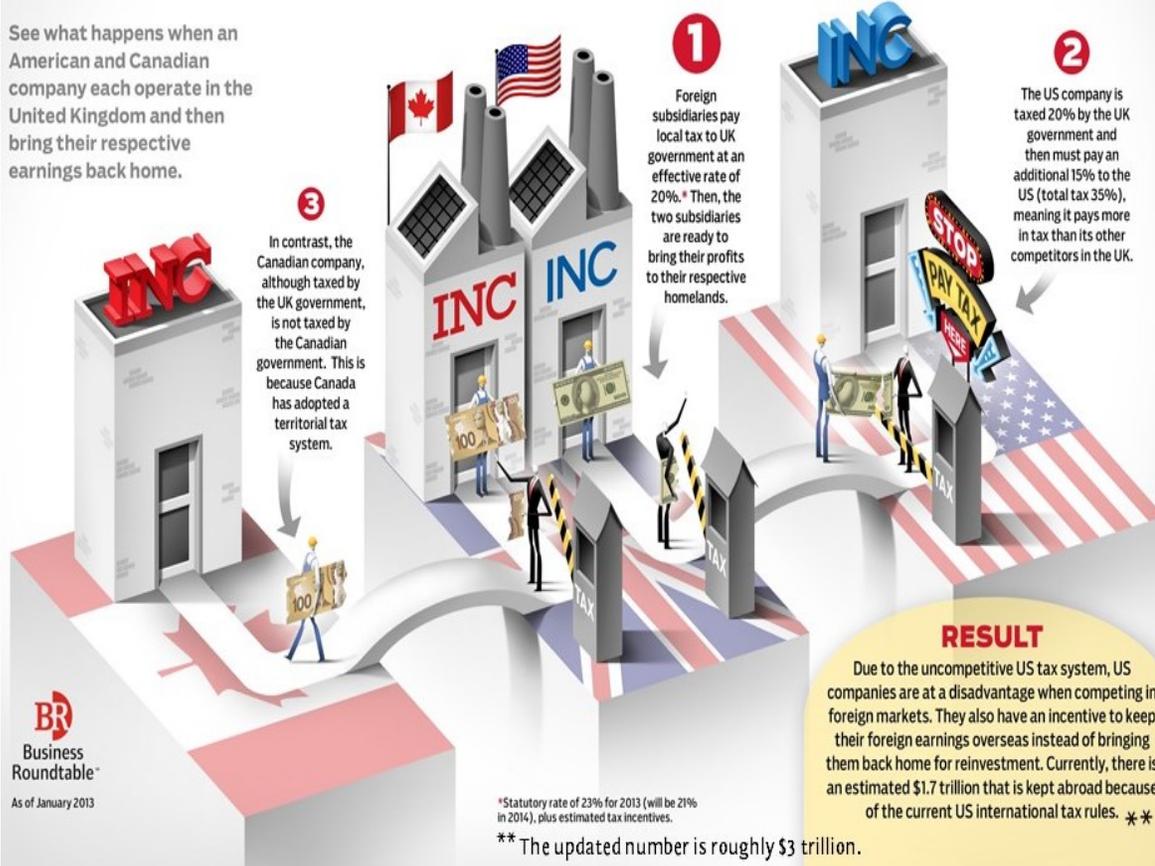
“When the stock market crashed, Franklin D. Roosevelt got on the television and didn’t just talk about the, you know, the princes of greed. He said, ‘Look, here’s what happened.’”
Joe Biden

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INTERNATIONAL TAXATION

A Competitive Disadvantage: The United States maintains a worldwide tax system, which taxes U.S. companies on both domestic income and the foreign earnings of their subsidiaries. In contrast, the vast majority of OECD countries maintain a territorial tax system in which little or no additional tax is typically imposed by the home country on active trade or business profits earned abroad.

See what happens when an American and Canadian company each operate in the United Kingdom and then bring their respective earnings back home.



economist who heads up the International Monetary Fund, claimed the U.S. corporate tax structure was too complex and inefficient. She said she is not yet a fan of the “embryonic” plans of either the Republican or Democratic parties, but pushed for changes that promoted job growth, transparency, and efficiency. There is no question that the U.S. corporate income tax structure puts U.S.-based companies at a competitive disadvantage. Most of the world has been cutting corporate taxes for decades in order to lure companies and the jobs they bring to their shores. The U.S. tax structure has become obsolete, pushing jobs, money, and investments overseas. Simplistically, our statutory rate of 35% (39.1% when you add the additional average state taxes) is much higher than any of the 34 most advanced, industrialized countries part of the OECD is 24% (ex U.S.).

Some argue that there are too many firms that do not pay the U.S. statutory rate, due to the numerous loopholes available. To some degree this is true, but it is often exaggerated. The biggest “loophole” cited by far, pertains to the avoidance of paying taxes to the U.S. Treasury on global profits.

GLOBAL VERSUS TERRITORIAL TAX SYSTEM

The U.S. is the only one of a handful of countries that taxes overseas profits (Global Tax System). It is also the only country that does so on such a massive scale. Virtually every other country taxes only goods and services sold within their borders (Territorial Tax system). For

example, when Boeing sells a plane to Air-France, Boeing must pay corporate income tax on that sale to both France and the U.S. However, when Airbus sells a plane to Delta, Airbus pays tax to the U.S. treasury, but not to France.

This is where the so-called loophole, one that lowers the effective U.S. tax rate, comes into play. Boeing and most other U.S. based companies actually avoid paying the tax to the U.S., because it only comes due when the money is remitted back to the U.S. This is why there are trillions of dollars of U.S. corporate profits sitting overseas, avoiding up to a 39.1% tax in the U.S. In addition, with the money sitting overseas, it is more likely that corporations will use those funds to build new plants in low tax jurisdictions.

Almost none of the OECD members tax globally (where they do it is usually limited). Is it really a loophole if U.S. companies avoid paying taxes on foreign sales when no other nation taxes them? Instead of arguing that U.S. companies are getting away with something, perhaps it's better to move to a territorial system that has tighter controls on potential abuses. This could bring trillions of dollars back to the U.S. It would also encourage more businesses to invest in plants and jobs in the U.S. Even if these profits were paid out in dividends alone, the influx of income to the U.S. Treasury could provide billions of dollars in individual tax receipts. It would also boost domestic consumption through higher income.



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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 24 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 25 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.