



# ALL STAR FINANCIAL

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## Weekly Market Wrap January 11, 2010

### Review - Week Ending 12/31/2009

Stocks rose in the first full week of trading for the New Year as investors prepare for 4<sup>th</sup> quarter earnings reports over the next few weeks. This week brings a few initial earnings releases, beginning with Alcoa after Monday's close. Merger and acquisition activity continues to pickup, as low interest rates and higher stock prices are encouraging corporate deal-making ahead of the economic recovery.

### Commentary/Highlights

- **Education a Good Investment:** The U.S. economy shed another 85,000 jobs last month, although the unemployment rate held steady at 10.0%. The economy has shed 7.2 million jobs since December 2007, when the recession began. Temporary hiring has picked up and manufacturing sector expansion should lead to more hiring in the months ahead. **Unemployment among college graduates is at 5.0%, half the national average.**
- **Consumers Shedding Debt at Record Pace:** Consumers reduced their credit balances by \$17.5 billion in November, an 8% annual reduction and representing the sharpest monthly decline since 1980.
- **Earnings on Deck:** The week will bring some initial earnings reports with earnings season to kick-off in earnest next week and over the next month. 4<sup>th</sup> quarter earnings are expected to break the string of nine quarters of declining year/year earnings growth and are also expected to show overall quarter/quarter revenue growth again. The big unknown will be the amount of additional bank charge-offs and additional loan reserves that will impact financial earnings. **Will earnings deliver or are expectations too high? That is the question to be answered in the coming weeks.**
- **China: Growth Story or Bubble:** Chinese export growth was up 18% in December, ending 13 months of decline, and pointing to the global recovery. Some are skeptical of "reality" of data and fear bubbles are forming, particularly in the real estate market. Meanwhile the 6<sup>th</sup> annual Credit Suisse China Consumer Survey shows an expanding and richer middle class, a smaller savings rate (more consumer spending), and expanding first time home buyers market. China has also overtaken US as largest auto market in world. Meanwhile the government has tentatively approved stock index futures, short-selling, and margin trading, opening a new chapter for their equity markets. The government has also increased capital requirements and short-term interest rates modestly in recent weeks to keep growth in check.
- **EuroZone Unemployed:** Unemployment in the Eurozone has also climbed to 10%, the highest rate in 11 years, and representing 15 million unemployed. Spain is the hardest hit, with a 19% unemployment rate.
- **Commercial Real Estate Bottom Feeding:** The beleaguered US commercial real estate sector has been attracting a new wave of money from sources including foreign banks, US private equity firms, and a leading sovereign wealth funds. More than 6% of commercial mortgage borrowers in the U.S. have fallen behind in their payments, a sign of potential troubles ahead as nearly \$40 billion of commercial-mortgage-backed bonds come due this year. Potential problem: If rates rise earlier than expected values could go lower.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.52%	+0.52%	+0.52%
Barclays High Yield	+2.03%	+2.03%	+2.03%
Dow Jones Industrial	+1.91%	+1.91%	+1.91%
S&P 500 Index	+2.72%	+2.72%	+2.72%
Russell 3000	+2.86%	+2.86%	+2.86%
MSCI EAFE Index	+2.34%	+2.34%	+2.34%
MSCI EAFE Small Cap	+3.95%	+3.95%	+3.95%
NASDAQ Composite	+2.12%	+2.12%	+2.12%
Russell 2000	+3.08%	+3.08%	+3.08%