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Weekly Market Wrap January 19, 2010

Review - Week Ending 01/15/2010

A Friday sell-off left the major averages in the red last week. Extending its 2010 win streak to seven sessions last Monday, the market was overdue for a pause with the Dow, S&P 500 and Russell 2000 each hitting fresh 52-week highs on Thursday. This week brings the first full week of earnings reports, kicked off by Citigroup and IBM after close on Tuesday.

Commentary/Highlights

- **Bank Profits-and Bonuses Return to Wall Street:** Total pay and compensation of banks, insurance companies, and investment firms rose by 18% last year to \$145 billion, or about 1% of the gross domestic product. The Obama administration has proposed a "financial crisis responsibility fee" for the top 50 banks, insurance companies, and broker-dealers, representing 35 U.S. firms and 15 U.S. subsidiaries of foreign firms. The fee is 0.15% of the non-FDIC liabilities of the banks that took the largest share of government TARP money. The plan is to stay in effect until all TARP funds are recouped by taxpayers.
- **Inflation Tame, For Now:** Holiday discounting kept inflation at bay during December, rising just 0.1%. But a separate report from the Federal Reserve showed that the total industrial capacity fell 1% during 2009, as new investment failed to keep pace with depreciation. This was the largest decline since the statistic began in 1967. Economists at IHS Global Insight warn it could put the economy more at risk of inflation if more capacity is destroyed just as consumer demand starts to pick up again.
- **Investors plowed a record \$396.2 billion into bond funds in 2009** as they mostly steered clear of U.S. stocks but boosted international equity holdings, especially in emerging markets, research firm Strategic Insight said on Thursday. Two themes emerged last year, with investors showing a clear preference for bonds over stocks, and emerging markets over developed markets, said Avi Nachmany, director of research at Strategic Insight. Net flows into U.S. equity funds were only \$6.3 billion, but investors will seek higher returns as about \$10 trillion is still sitting in money market and other short-term funds that are paying virtually zero interest.
- **China Foreign Reserves Expand-Again:** China's central bank announced that it's foreign currency reserves, the world's largest, rose to \$2.4 trillion, rising \$126 billion just in the last quarter. For the first time, Chinese investment in U.S. companies surpassed U.S. investment in Chinese companies, a trend partly fueled by depressed prices of American assets.
- **Overall S&P 500 earnings in the fourth quarter are expected to have spiked 186% from a year ago** and revenue is expected to have risen 7%. Finance, Materials, and Energy sectors are forecast to lead, with upward revisions appearing strongest for the Tech sector. However, strip out the impact of the financial sector and earnings growth drops down to 8% and revenue growth falls to 1%. "The financial sector will benefit from very easy comparisons to last year, but the real question is how the earnings and revenues look outside of financials and what companies say about later in 2010," said John Butters, senior research analyst at earnings tracker Thomson Reuter.
- **ETFs-Exchange Traded Funds Increasing Popularity:** ETFs went from \$540 billion in assets at the beginning of the year to \$793 billion by December 31, increasing by 47%. Popular ETF funds during 2009 were the SPDR Gold Shares (GLD) taking in \$11 billion, and the Vanguard Emerging Markets (VWO) taking in \$9.0 billion, surpassing the \$4.0 billion inflows of the older iShare MSCI Emerging Markets fund. Bond favorites were the \$8.4 billion inflows in the iShares Barclays TIPS (TIP) Bond and the \$6.4 billion to the short-duration iShares Barclays 1-3 year Credit Bond (CSJ).

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%