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Weekly Market Wrap January 26, 2010

Review - Week Ending 01/23/2009

Stocks experienced their worst weekly decline in months as the market got a dose of uncertainty last week. Legislative uncertainty abounds, with the health care bill outcome uncertain, the impact of recent banking proposals unknown, and the reappointment of Fed chair Bernanke rumored to be in doubt. This week they vote on Bernanke, the FOMC meets, and another full week of earnings. Hang on!!!

Commentary/Highlights

- **Market Correction:** The correction last week may have been partially due to 4th quarter earnings expectations on Wall Street inching too high again. For the most part company earnings reports have been on target or beating expectations, but perhaps just slightly short of the high bar estimates.
- **Washington is the new Wall Street:** The Obama banking proposals last week, this week's Senate confirmation of chairman Ben Bernanke, both highlight the increasing importance of Washington and the government involvement in the markets in general-at least until new regulatory structures are put in place to guide the risk-taking that led to the credit crisis.
- **China Lending Curbs and Tightening:** Last week the China Banking Regulatory Commission announced plans to curb lending growth in China for 2010. The move, coupled with a slight earlier increase in short-term rates and raising reserve requirements for banks, caused alarm in the markets, and triggered part of last week's selling. Given the massive government stimulus, high levels of recent lending, and signs of inflation in the region, the actions seem prudent over the long-term.
- **California Housing Rebound?** The Southern California housing market finally showed some strength in December, providing hope that the hardest hit markets may be able to soon turnaround. Median sales price was up 4%, and sales jumped 12%, the best pace since 2006. **Investor concerns- How will real estate markets react when the homebuyer credit expires and the Fed starts curbing mortgage purchases in April?**
- **M&A Activity and IPO Markets:** We have mentioned recently the increased level of merger and acquisition activity, which normally leads in increased activity in the initial public offering market. According to Deal Logic, private equity and venture capital spin-offs rose to 52% of IPO's in 2009, up from 22% in 2008, the highest percentage since 1995. Higher levels of merger and acquisition activity and public offerings are generally supportive for the stock markets.
- **Mutual Fund Universe Shrinking:** A total of 1,336 mutual funds were closed or liquidated last year according to Lipper. Most were closed due to poor performance or shrinking asset size. The trend contrasts the sharp growth in ETF's last year.
- **Banking Proposals:** The Obama banking proposals amount to mini-revival of Glass Steagall, toughening limits on the size of financial institutions, and forcing them to choose between government FDIC safety net for deposits or trading for their own accounts. The proposals are preliminary and still have to go through Congress to become law. Last year 140 banks failed, up from 25 failures in 2008. The 4 largest banks have 56% of all domestic bank assets, 10 years ago the top 4 banks had just 35% of all domestic bank assets.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.25%	+1.47%	+1.47%
Barclays High Yield	-0.58%	+1.56%	+1.56%
Dow Jones Industrial	-4.08%	-2.27%	-2.27%
S&P 500 Index	-3.87%	-1.99%	-1.99%
Russell 3000	-3.73%	-1.82%	-1.82%
MSCI EAFE Index	-3.73%	-0.92%	-0.92%
MSCI EAFE Small Cap	-3.43%	+1.64%	+1.64%
NASDAQ Composite	-3.61%	-2.81%	-2.81%
Russell 2000	-3.26%	-1.29%	-1.29%