



# ALL STAR FINANCIAL

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## Weekly Market Wrap February 8, 2010

### Review - Week Ending 02/05/2010

Stocks closed the week lower again as concerns over sovereign debt in Greece and other high debt European nations sent the Euro and foreign stocks into decline during the week. Also, the hoped for job creation did not materialize, though unemployment fell to 9.7%, an improving trend. Fed Chairman Ben Bernanke details his exit plans before Congress this week, plus the tail end of 4Q earnings reports.

### Commentary/Highlights

- **Buying Opportunity?** Concerns over US joblessness and Europe's sovereign debt finances have been drivers of the recent market correction. Yet emerging market stocks have declined 8% despite healthier trade balances, debt that is more manageable, decent labor markets, and higher economic growth. Citigroup, Bank of America Merrill Lynch, Goldman Sachs, and JP Morgan all released reports touting upside expectations for emerging markets in the coming year.
- **Euro Zone Debt Fears:** The Euro declined to a 12-month low versus the yen and a 9-month low versus the dollar on increasing concerns of sovereign debt risk in Greece, Portugal, Ireland, and Spain, where debt levels remain high. ECB bank president Trichet and G7 finance ministers sought to calm investors but the risk of some form of European Union bailout remains on the horizon. Traders have taken a record \$10 billion in short positions betting against further declines in the Euro in short-term.
- **Muni Bargain Days Over:** WSJ notes that for first time since early 2008, tax-free municipal bond yields are below comparable treasury yields. AAA-rated general obligation municipals now yield 98% of treasuries, versus as high as 165% last year. Fears of rising taxes and limited supply of issuance have been key market drivers.
- **Sign of the Times:** The Mortgage Bankers Association has sold its Washington, DC headquarters for \$41 million, far below the \$79 million paid for the property in 2007, and well below the \$75 million mortgage financing from PNC Bank. It is estimated that close to one-third of all mortgages are now "underwater", and 4.5 million homeowners have property values worth less than 75% of the mortgage value. This number is expected to rise to 5.1 million in June according to Core Logic, whose research suggests that the 75% threshold is where most home buyers begin to walk away from mortgages.
- **U.S. Jobless Rate Fell to 9.7% in January:** Temporary employment added 52,000 jobs but overall non-farm employment fell 20,000. The labor market is much improved from early last year when jobs were being shed at a rate of 750,000/month but the economy is still months away from meaningful job growth.
- **Manufacturing Rebounding:** The ISM Manufacturing Index rose to 58.4 in January, its highest reading since 2004. In 90% of the 24 major countries tracked by Bank of America, manufacturing is expanding, in major European nations Britain, Germany, and France, as well as developing nations Brazil, China, and India. Business spending is up 13% over the last six months, while inventories have fallen 7%, the widest gap on record, hinting at more expansion ahead.
- **Bonds are 2009 Favorites:** J. P. Morgan reported that final 2009 inflows into bond funds total \$375 billion, while equity funds saw outflows of \$9 billion, the second straight year of outflows. JP Morgan suggests that the recovering economy, improving profits, and huge bond inflows, suggest rebalancing towards equities for many investors in 2010.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.30%	+1.83%	+1.83%
Barclays High Yield	-0.65%	+0.61%	+0.61%
Dow Jones Industrial	-0.49%	-3.71%	-3.71%
S&P 500 Index	-0.64%	-4.17%	-4.17%
Russell 3000	-0.75%	-4.33%	-4.33%
MSCI EAFE Index	-3.87%	-8.10%	-8.10%
MSCI EAFE Small Cap	-3.07%	-4.02%	-4.02%
NASDAQ Composite	-0.29%	-5.64%	-5.64%
Russell 2000	-1.49%	-5.11%	-5.11%