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Weekly Market Wrap February 22, 2010

Review - Week Ending 02/19/2010

Stocks had another week of solid gains, putting together their first back to back gain in three months on more signs of a gradual economic recovery. The Fed discount rate hike surprised markets early Friday, but the market had stabilized by the end of the day. This week brings more than twenty economic releases and the final round of 4th quarter earnings reports.

Commentary/Highlights

- **Fed raised discount rate 25bps to 0.75% on Friday, stating that "emergency" status of banks has passed.** However, the Fed went to great efforts in public comments by board members to state that raising the key Fed funds rate was still months away, if not longer. Fed President Dudley emphasized low inflation has shifted the priority to growth and ensuring job creation. Ben Bernanke will provide more direction and clarity as he speaks to Congress this week.
- **China reduced its holdings of U.S. Treasury bonds** in December by \$34 billion, placing it behind Japan's holdings of \$769 billion in treasury bonds
- **Mortgage delinquency rates declined for the first time in three years!** The decline was slight falling from 9.64% to 9.47% during the 4th quarter of 2009. No one is expecting the trend to continue however, with a large amount mortgages coming due this year and jobless rates remaining stubbornly high. The Obama administration also announced \$1.5 billion for foreclosure aid to Arizona, California, Michigan, and Nevada, states hardest hit by the housing crisis.
- **Coaxing Congress:** Five former secretaries of the U.S. Treasury Department have called on Congress to implement the "Volcker Rule" that would restrict the size and trading activities of banks.
- **Asia Led Recovery and Leads in Tightening Cheap Money:** The Fed Reserve has cautiously started to exit emergency lending measures, but Australia, China, and India, and indeed the whole Asian region have led in withdrawing emergency measures and putting an end to cheap money in an effort to keep inflation in check as their economies resume growth. South Korea and Taiwan are likely to raise interest rates next.
- **Health Care Summit:** President Obama will lead a Health care Summit on Thursday with key leaders of the Democratic and Republican parties. The effort is one last chance at compromise for health care legislation that has been stalled despite a year of Congressional efforts. The Obama administration released its revised Senate plan today as a starting point, and is hoping to gain momentum from consumer outcry at Anthem Blue Cross in California, which announced premium hikes of as much as 39% and was recently cited by regulators for late payment of claims.
- **Consumer Saving More, Using Less Credit:** Outstanding credit card balances in the U.S. grew by 10.5% a year over the last 25 years, reaching \$957 billion at December 31, 2008. **Last year consumers reduced their balances by 9.5% to \$866 billion, the first time ever the balance has declined since 1968.**
- **Financial Reform:** Just as it seems that Healthcare reform is coming to a conclusion, Senators Dodd and Shelby are expected to unveil financial reform overhaul legislation this week. The gridlock continues! Hopefully, the process will be smoother than the healthcare reform.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	-0.27%	+1.03%	+1.03%
Barclays High Yield	+1.64%	+0.96%	+0.96%
Dow Jones Industrial	+3.05%	+0.14%	+0.14%
S&P 500 Index	+3.16%	-0.24%	-0.24%
Russell 3000	+3.22%	+0.08%	+0.08%
MSCI EAFE Index	+1.71%	-5.57%	-5.57%
MSCI EAFE Small Cap	+0.82%	-3.10%	-3.10%
NASDAQ Composite	+2.76%	-1.11%	-1.11%
Russell 2000	+3.43%	+1.11%	+1.11%