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Weekly Market Wrap March 1, 2010

Review - Week Ending 02/26/2010

Stocks declined by a modest half-percent across the broad market indexes, while both government and corporate bonds firmed. Weaker than expected consumer confidence and home sales data were behind the selling, though both indicators are subject to seasonal weakness, and harsh winter weather in some regions could moderate economic data in the coming weeks.

Commentary/Highlights

- **Economic Update:** The 4th quarter GDP was revised up to 5.9%, but expect 1st quarter GDP to fall back to the 2-3% growth range. Consumer confidence fell sharply, though consumer spending has remained modestly positive. Jobless claims remained elevated and both existing and new home sales fell, though both numbers were probably hurt by winter weather.
- **Banks still in recovery mode:** U.S. banks posted last year their sharpest decline in lending since 1942, making it harder for the economy to fully recover. Banks plagued by losses on commercial real estate, are less willing to extend loans, limiting credit to both businesses and consumers. Besides registering their biggest full-year decline in total loans outstanding in 67 years, U.S. banks set a number of grim milestones. According to the FDIC, the number of U.S. banks at risk of failing hit a 16-year high at 702. More than 5% of all loans were at least three months past due, the highest level recorded in the 26 years the data have been collected.
- **AIG sells key asset:** AIG announced a deal to sell its AIA Group Asian life insurance unit to Prudential for \$35 billion. The \$25 billion cash portion of the purchase will be used to repay AIG's preferred interests and credit facility at the Federal Reserve Bank of New York, put in place during the height of the credit crisis.
- **Europe has Greece, We have California:** CALPERS, California Public Employees Retirement System, is considering reducing its projected return on investments from 7.75%. A reduction could force cash-strapped government units in California to pay millions more each year to cover government pension obligations according to the WSJ. BlackRock, advisor to the CALPERS has suggested a projected return has low as 6%. CALPERS manages \$200 billion, making it the largest US public pension, and the move could trigger similar actions at other pensions. The average projected returns for U.S. pensions is currently 8%.
- **SEC limits short-selling:** SEC commissioners voted 3-2 last week to restrict short sales of a company's stock once it falls 10 percent from the previous day's closing price. When the 10% threshold is triggered, traders could only execute short sales for a stock at a price above the market's best bid. The move is design to limit the free fall selling that occurred during the credit crisis of 2008.
- **Fed Vice Chairman Donald Kohn** announced he will retire in June. His departure will open up a third seat on the seven-member Federal Reserve board in Washington. Board members are picked by the President and must be confirmed by the Senate.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.87%	+1.91%	+1.91%
Barclays High Yield	+0.48%	+1.44%	+1.44%
Dow Jones Industrial	-1.03%	-4.70%	-4.70%
S&P 500 Index	-0.86%	-5.02%	-5.02%
Russell 3000	-0.41%	-0.34%	-0.34%
MSCI EAFE Index	+0.54%	-5.06%	-5.06%
MSCI EAFE Small Cap	+0.76%	-2.36%	-2.36%
NASDAQ Composite	-0.70%	-6.31%	-6.31%
Russell 2000	-0.45%	+0.66%	+0.66%