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Weekly Market Wrap March 16, 2010

Review - Week Ending 03/12/2010

Stocks had modest gains last week as economic data continues to show gradual but choppy improvement. Foreign stocks outperformed domestic stocks for the first time in weeks. This week includes a FOMC meeting with rate announcement on Tuesday-no changes in interest policy expected but expect more confirmation of unwinding Fed mortgage purchase programs.

Commentary/Highlights

- **Financial Reform Debate Begins:** Just as the healthcare reform bill goes to a vote, the Senate proposed a comprehensive financial reform bill on Monday. Key details include systematic risk oversight (Financial Stability Oversight Council), consumer protection agency (Consumer Financial Protection Bureau), limiting bank trading activities, derivatives regulation, and mechanisms for shutting down insolvent banks without government intervention. Winners: smaller community and regional banks, credit unions. Losers: Large banks, investment banks, and derivatives trading firms.
- **Economic Review:** Chain store and retail sales improved last week, as did job hiring trends, as jobless claims slightly decline, temp hiring remains up, and overall job openings are again on the increase. Though unemployment remains high, the economy is increasingly appearing to be close to creating jobs again.
- **Moody's warnings nations to cut spending or risk AAA ratings:** Moody's rating agency last week warned that the four large credit-worthy economies of the U.S., Great Britain, France, and Germany have reached the point of being at risk of being downgraded from their AAA ratings, a move that could potentially increase interest rates. Moody's urged spending controls and "exit strategy" from the emergency programs put in place to the financial crisis. The announcement highlight's the "government policy risk" the markets face in the coming year.
- **Lehman Brothers Report:** A bankruptcy examiners report on Lehman Brothers highlighted unusual accounting of repurchases transactions, which allowed Lehman Brothers to hide up to \$50 billion in loans off its balance sheet. Regulators and are asking for explanations from Lehman executives, as well as Ernst and Young, which apparently failed question or halt the practice, and failed to properly inform the board of directors. Question: How does this happen a decade after Enron and WorldCom?
- **FOMC Meeting:** The Fed is expected to keep interest rates near zero on Tuesday, but will also likely announce more progress on exiting of its emergency programs such as buying of mortgages.
- **Google versus China:** Google may close the door on its China search site due to disputes with the Chinese government on censorship laws. Google has stopped censoring web search results, and the government is set to review internet service provider licenses this month. Microsoft has announced it intends to stay in China, and abide by requirements, though it will likely seek government cooperation on software piracy of its Office and Windows products.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.13%	+1.95%	+1.95%
Barclays High Yield	+0.97%	+3.62%	+3.62%
Dow Jones Industrial	+0.61%	+2.45%	+2.45%
S&P 500 Index	+1.03%	+3.56%	+3.56%
Russell 3000	+1.19%	+4.30%	+4.30%
MSCI EAFE Index	+1.94%	-0.03%	-0.03%
MSCI EAFE Small Cap	+2.25%	+2.97%	+2.97%
NASDAQ Composite	+1.78%	+4.34%	+4.34%
Russell 2000	+1.64%	+8.43%	+8.43%