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Weekly Market Wrap March 23, 2010

Review - Week Ending 03/19/2010

Stocks rose for the third week in a row, as modestly improving economic releases and the Fed's decision to leave interest rates low for an "extended period" of time encouraged investors. The big news over the weekend was the passage of the Health Care Reform Bill on Sunday, futures initially pointed lower on the news but stocks firmed throughout the day on Monday.

Commentary/Highlights

- **Health Care Bill Passes:** The house passed landmark healthcare reform over the weekend, in a bill designed to expand coverage to the 32 million uninsured, limit insurer's ability to drop coverage, and install non-coverage penalties for individuals and large companies beginning in 2014. The bill will be phased in over the next few years and is expected to become law later this week.
- **Investors Tiptoeing Back to Markets:** Money market fund assets have dipped below \$3 trillion for the first time since 2007. Despite the strong rally in stocks last year, most of the initial fund flows went into bond funds during 2009. So far in 2010, things are starting to heat up in the equity markets with \$6 billion in flows last week.
- **India's central bank** raised its target interest rate last week by 0.25% to 5.00%. The move was ahead of market expectations as the central bank sought to combat inflation, which rose 9.9%, well above the 8.5% forecast.
- **Municipal bond warning:** WSJ article highlighted the rising risk in smaller issue municipal bonds. Many state and large metro issuers are cutting off the flow of cash to the local level, making smaller municipal bond issues potentially more risky. "I prefer large states and cities, as problems in these areas are pushed to local governments", states Laurence Fink, BlackRock CEO. Muni investment flows have been strong as investors seek to avoid higher taxes, with \$69 billion net flows in 2009, and \$12 billion so far in 2010. Smaller issues (\$20mm or less) have made up 67% of the number of deals this year. Still the overall default rate on municipals remains low, just 0.19% of issuance since last July.
- **Dividends on Rebound:** Over 77 S&P 500 companies have raised their dividends by \$4.4 billion so far this year, a sharp reversal from last year's record \$39 billion in dividend cuts.
- **Economic Update:** Inflation remained tame last week, the Consumer Price Index was flat, and the Producer Price Index actually fell 0.6%, giving the Fed plenty of room to leave interest rates low. Jobless claims continued to drift lower, and Industrial Production edged up.
- **Earnings Preview 1st Quarter:** Thomson Reuters expects that 1st quarter corporate earnings will continue to show strong growth of 36% Y/Y and 10% revenue growth when reports start coming in next month.

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%