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Weekly Market Wrap May 24, 2010

Review - Week Ending 05/21/2010

Stocks declined throughout the week as concerns over Euro debt continue to weigh on the market. Memories of strong 1st quarter profits are already fading and economic data was generally mixed last week, adding to investor concerns and market volatility. There is little in earnings news and the next Fed meeting is a month away-expect more volatility ahead.

Commentary/Highlights

- **Euro fatigue is hanging over the markets** and it was announced over the weekend that the Bank of Spain rescued one of its regional savings banks, Caja Sur, after merger talks with a larger bank broke down.
- **The Senate passed their version of the financial reform last week.** Now the Senate and House must reconcile their differing versions of the bill, a process expected to take several more weeks. Key areas of reform that should eventually emerge:
 - **Derivatives**-Expect more transparency in reporting transactions and establishment of a clearinghouse or exchange to monitor position risk of these relatively new instruments within the financial system.
 - **Size & Activity Limits**- Probably little constraining bank size, but expect some version of Volcker rule, limiting trading activities of banks with FDIC and government supports.
 - **Resolution Authority**-Proposal to tax larger banks to form a "resolution fund" for future bailouts will be likely be defeated.
 - **Fed Reserve**-Increased audits and improve transparency on transactions.
 - **Consumer Protection**-formation of a standalone Consumer Financial Protection Agency, whose sole purpose is to protect consumers in financial transactions-certain to pass in some form.
- **Last week the S&P 500 lost over 4% and is now down 12% from its April high.** Though the sell-off has focus on troubles in Europe, it might help long-term investors to focus on what has been happening in the U.S. economy. Corporate earnings are improving, up 47% Y/Y, with S&P 500 revenues up 12% Y/Y during the quarter. The economy is growing again, three quarters of GDP growth and business economist just raised their U.S. growth estimate to 3.2% for 2010. Inflation is low, both the producer and consumer price indexes (CPI) fell in April; inflation is at its lowest level in four decades. Interest rates are low and no interest hike is now expected until 2011. Housing is slowly improving, existing home sales rose 7.6% in April, spurred tax credits. Jobs are being created again, with 573K jobs added in 2010. **The fundamentals often paint a very different picture than the fear generated by the headlines.**
- **JP Morgan's weekly update** points out that the falling Euro could have a silver lining that will make its regions exports more attractive to the global economy. The Euro region is more reliant on exports, with 41% of its GDP tied to export activity, versus just 13% in Japan, and 12% in the U.S.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.56%	+2.37%	+4.20%
Barclays High Yield	-2.09%	-1.68%	+2.87%
Dow Jones Industrial	-3.97%	-5.79%	-1.25%
S&P 500 Index	-4.19%	-6.76%	-1.71%
Russell 3000	-4.45%	-6.46%	-0.90%
MSCI EAFE Index	-4.33%	-13.78%	-13.04%
MSCI EAFE Small Cap	-6.36%	-11.59%	-7.37%
NASDAQ Composite	-5.02%	-7.04%	-1.77%
Russell 2000	-6.42%	-4.20%	+4.28%