



# ALL STAR FINANCIAL

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## Weekly Market Wrap June 14, 2010

### Review - Week Ending 06/11/2010

Stocks rebounded on positive economic reports from both the U.S. and China last week. Bonds declined slightly on European concerns and quiet corporate issuance, though emerging market bonds improved slightly. The economic calendar is relatively light, no earnings or Fed meeting, and once again will center on the employment reports later in the week.

### Commentary/Highlights

- **She's a gusher:** BP has lost \$85 billion in market cap since the April 20th oil spill. The Obama administration and Congressional leaders are pushing for an oil damages fund to be escrowed by BP for as much as \$20 billion to pay claims and cleanup costs for the record oil spill. The government also told BP their remedy plan was "inadequate" and demanded a new plan today. BP is also having an emergency board meeting regarding their dividend today in London. President Obama is to address the nation regarding the BP oil spill on Tuesday night.
- **Economic Update:** Retail Sales unexpectedly fell 1.2% in May, after seven months of improvement. Consumer sentiment rose during the month, suggesting the retail sales decline may be temporary. JP Morgan notes that consumer spending remains on track for 3% growth-despite the \$143 billion contraction in consumer credit, the largest since the 1930's. The Fed Beige Book came out last week and noted that economic activity continued to improve since the last report across all twelve Federal Reserve Districts, although many Districts described the pace of growth as "modest."
- **SEC Circuit Breakers:** The Securities and Exchange Commission approved a rule last week that will require exchanges to pause trading in certain individual stocks if the price moves 10% or more in a five-minute period. The rules came in response to the "flash crash" on May 6<sup>th</sup>, and widespread market disruptions that occurred during that day. The rules are in effect on a pilot basis until December 10<sup>th</sup>, and include only stocks in the S&P 500 Index.
- **Stocks are cheap:** The recent correction has left stocks at their cheapest levels relative to bonds since the market collapse in November 2008. Earnings yields on the S&P 500 are 6.3%, above the historical average of 6%, and well above the average investment grade bond yield of 4.5%.
- **But economic growth is moderating:** The ECRI weekly leading index fell to 124.1 for the week ending May 28. It was 125.6 one week earlier. The smoothed, annualized growth rate dropped to 0.4% from 5.1%. This is the fourth consecutive week of falling index values and growth rates. Weaker performance in the ECRI weekly leading index suggests that the economy may have trouble accelerating growth as the recovery matures early next year.
- **Huge Merger and Acquisition War Chests:** The Federal Reserve reported Thursday that nonfinancial companies had socked away \$1.84 trillion in cash and other liquid assets as of the end of March, up 26% from a year earlier and the largest-ever increase in records going back to 1952. Cash made up about 7% of all company assets, including factories and financial investments, the highest level since 1963.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	-0.07%	+2.34%	+4.16%
Barclays High Yield	-0.54%	-1.90%	+2.64%
S&P 500 Index	+2.55%	-6.32%	-1.25%
Russell 3000	+2.56%	-5.88%	-0.29%
MSCI EAFE Index	+1.25%	-13.10%	-12.34%
MSCI EAFE Small Cap	+0.78%	-11.04%	-6.80%
MSCI Emerging Markets	+0.43%	-8.56%	-6.37%
NASDAQ Composite	+1.10%	-6.44%	-1.13%
Russell 2000	+2.41%	-4.17%	+4.31%