



# ALL STAR FINANCIAL

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## Weekly Market Wrap June 28, 2010

### Review - Week Ending 06/25/2010

Stocks fell last week on disappointing housing data and ongoing European debt concerns. The Federal Reserve left rates unchanged last week at the latest FOMC meeting, and left the "extended period" timeframe for low interest rates intact. Broad equity indexes fell 3-4%, the first decline in three weeks, while bonds firmed.

### Commentary/Highlights

- **Reversion to Mean?** Investors have been burned by the last decade, first the collapse of the tech bubble, then the global financial crisis of 2008, leading to negative 0.95% returns for stocks during the decade, far below the historical average. This has caused investors to pour \$431 billion into bond funds over the past two and half years, and pull \$206 billion from equity funds. These fund flows have persisted despite P/E ratio's that are more than 25% less than their historical average, dividend yields that are 2% and rising, while interest rates have nowhere to go but up.
- **Financial Reform Bill:** Sweeping financial reform was passed last week after marathon negotiations. The bill was initially greeted with favor by Wall Street, and removes regulatory uncertainty for the financial sector going forward. The bill is expected to be signed on July 4th. The main provisions include:
  1. Establishes oversight council to monitor financial stability, funds liquidations with fee on banks with over \$50 billion in assets.
  2. Limits investments in hedge funds and private equity to 3% or less of banks capital.
  3. Requires derivatives to be traded on exchanges and cleared through central clearinghouse.
  4. Creates Consumer Financial Protection Agency within Federal Reserve.
  5. Permanently increases FDIC coverage to \$250,000.
  6. Requires hedge fund and private equity fund managers to register with SEC.
  7. Requires banks that package loans to keep 5% of credit risk on their balance sheets.
- **G20 Summit:** Leaders of the G20 nations met in Toronto over the weekend. President Obama urged more spending to support economic growth while the economic recovery remains "fragile". European leaders and Canada remain focused instead on deficit reduction targets. The group's closing statement included the specific deficit-reduction target, but it was couched in caveats -- that deficit reduction needed to be "calibrated" to avoid harming growth, paced differently in each country and paired with other reforms to strengthen the economy. The statement reflects differing growth rates and debt loads for the major global economies.
- **AgBank of China IPO:** The Agricultural Bank of China is scheduled to come to market with a \$24 billion Initial Public Offering (IPO) on Wednesday, potentially the largest IPO on record. AgBank of China is the last of the four main state owned banks in China to go public and investor demand is expected to be strong.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.45%	+3.01%	+4.85%
Barclays High Yield	+0.24%	+0.17%	+4.80%
S&P 500 Index	-3.61%	-7.52%	-2.51%
Russell 3000	-3.69%	-7.22%	-1.71%
MSCI EAFE Index	-2.59%	-11.82%	-11.06%
MSCI EAFE Small Cap	-1.90%	-8.98%	-4.64%
MSCI Emerging Markets	-0.60%	-5.48%	-3.21%
NASDAQ Composite	-3.74%	-7.28%	-2.01%
Russell 2000	-3.26%	-4.71%	+3.72%