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Weekly Market Wrap July 19, 2010

Review - Week Ending 07/16/2010

Stocks fell sharply Friday on worries about the outlook for the financial sector and the impact of new financial regulations. Bonds and foreign stocks finished the week with modest gains. Another full week of earnings reports ahead, but with the market also has an eye on economic data, which has been weakening in recent weeks.

Commentary/Highlights

- **Goldman Sachs** settled its pending fraud allegations with the SEC last week for \$550 million, the largest settlement to be paid by a Wall Street firm and the first major settlement related directly to mortgage securities.
- **Earnings Reports-So Far Another Solid Quarter:** The first week of earnings saw about 77% of companies reporting better than expected earnings, with solid surprises and 5% revenue growth.
- **Bank earnings:** Three major banks, JP Morgan, Bank America, and Citigroup, all reported strong profits last week, but the market sold-off due to declining revenue at all three banks. Loan losses decline, capital ratios improved, but concerns over long-term loan demand led to sell-offs in the sector on Friday. Businesses are generating strong internal cash flow and currently have ample cash reserves, both leading to weak loan demand in recent quarters.
- **Business are set to increase hiring and spending:** U.S. businesses are set to increasing hiring and equipment investment according to a recent survey of National Association of Business Economics. Hiring plans are up to 39%, from 22% planning to hire April. Businesses planning new capital equipment purchases rose to 44%, up from 41% in April.
- **Economic Review:** Retail sales dropped 0.5% in June, in line with estimates. Both Consumer and Producer Price Indexes fell, suggesting inflation remains off the table for now. Minutes from the FOMC Meeting reference the potential need for more stimulus, as Fed forecasts for growth were trimmed in line with other economist projections.
- **Professor Jeremy Siegel**, author of *Stocks for the Long Run*, still believes stocks remain attractive. "It's exactly times like this, when bearish sentiment has brought down valuations, that your chance of strong returns in the following years is greatest." Siegel notes that stocks are now trading at a discount to their long-term averages. Bearish sentiment has risen to 57% according to the most recent American Association of Individual Investor survey-the highest it's been since the 70% reading in March 2009, just when stocks started to take off again.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.62%	+0.52%	+5.88%
Barclays High Yield	+1.04%	+2.05%	+6.65%
S&P 500 Index	-1.19%	+3.23%	-3.64%
Russell 3000	-1.40%	+3.03%	-3.20%
MSCI EAFE Index	+1.22%	+6.27%	-7.79%
MSCI EAFE Small Cap	+1.20%	+5.55%	-1.95%
MSCI Emerging Markets	-0.24%	+3.57%	-2.81%
NASDAQ Composite	-0.79%	+3.31%	-3.97%
Russell 2000	-3.01%	+0.19%	-1.76%