



# ALL STAR FINANCIAL

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## Weekly Market Wrap August 16, 2010

### Review - Week Ending 08/13/2010

Stocks were in decline last week, falling 3-5% across the broad market indexes, as positive earnings momentum fades. We are also between Fed meetings, before November elections, and economic news has generally been mixed at best-leaving investors with little to get too excited about in the coming weeks and still plenty of fear in the air.

### Commentary/Highlights

- **China Surpasses Japan** and becomes the 2<sup>nd</sup> largest economy in the world as measured by GDP. Economists estimate China's economy could approach the U.S. in aggregate size as early as 2020.
- **The Lost Decade?** There is lots of talk in the financial press about the "lost decade", with the S&P 500 returning a annual negative 1.0% return over the last ten years-lower than the 0.10% negative return during the 1930's. However, investors in a 60/40 balanced portfolio had 2.3% annual return according to Research Affiliates, and an equal weighted portfolio of 16 different asset classes, including emerging market equities, emerging market bonds, high yield bonds, TIPS, REITS, commodities, and convertible bonds returned 6.8% annually.
- **High Yield Bond Record Week-** Corporate borrowers issued record \$15.4 billion in junk bonds this week, taking advantage of record low interest rates. Director of Fitch Ratings still attractive due to declining default rates.
- **How Low Can They Go?** Mortgage Rates hit a new low of 4.4%, lowest in 39 years. The yield on top-rated 10-year municipal bonds fell 3 basis points to 2.43 percent on Thursday, continuing a string of record-setting lows on Municipal Market Data's benchmark triple-A scale. The yield on the 10-year Treasury bond closed the week at 2.69%, the lowest it has been since March 2009-curiously about the time the stock market began to rally.
- **Asian Strength:** China's exports rise 38% from a year ago to a record \$145 billion in July, creating a \$29 billion trade surplus. Thailand's consumer confidence rose the 3rd straight month. Hong Kong's GDP rise higher than expected 6.5% in 2Q.
- **JP Morgan's David Kelly** commented on Bloomberg that people would rather overpay for bonds than buy stocks at discounts. Recession and resulting risk aversion may have already caused an anticipated demographic shift into higher bond allocations-20 years sooner than anticipated! How often do you go to the store and say "No thanks, I would rather not buy the sale items, I would rather pay full price-and then some!"

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays Aggregate Bond	+0.29%	+1.65%	+7.07%
Barclays High Yield	-0.72%	+3.33%	+7.99%
S&P 500 Index	-3.75%	+4.74%	-2.24%
Russell 3000	-4.01%	+4.42%	-1.89%
MSCI EAFE Index	-4.73%	+7.75%	-6.51%
MSCI EAFE Small Cap	-5.39%	+6.08%	-1.46%
MSCI Emerging Markets	-2.93%	+7.29%	+0.67%
NASDAQ Composite	-5.02%	+3.05%	-4.22%
Russell 2000	-6.30%	+0.13%	-1.82%