



2011 - 1ST QUARTER REVIEW AND PREVIEW



BOB'S CORNER

Value is Always a Good Bet

As you look at the geopolitical, event driven ups and downs of the international markets over the past six months, a short-term investor would be fearful and perhaps head for the hills. We have a strong emerging international flavor to our portfolio and we are there because it is still the best value to growth available. The average price to earnings ratio (P/E) of the BRICK nations (Brazil, Russia, India, China, Korea) is 12. You divide that by the year over year estimated growth of these countries stock markets of approximately 20% and you get an estimated PEG ratio of 0.6. Any PEG ratio below 1.0 is usually a tremendous value when compared to the upside growth over the next 12 months. Compare this to the U.S. average P/E of 15 and projected earnings growth over the next 12 months of 15%, which equates to a pricier PEG of 1.0.

In the 25 years I have been managing money, I have observed that even though events may bring stock markets down, if they were fairly valued before the fear driven vent occurred, they always come back to their true value when fear leaves the equation. I believe this will happen with the emerging countries as well. PATIENCE is the key!

Thank you for your trust in the All Star Team!

Look Beyond the Headlines

MARKET OVERVIEW

Overview

The 1st quarter was a textbook case of what market-watchers call "headline risk," events that create fear and uncertainty for investors but have little connection to the underlying fundamentals of the economy or the performance of specific investments. At times like these, it is important for investors to see the investment "forest" from the headline "trees." Even with the rash of challenges that emerged in the opening months of 2011, the global economic recovery remains on track. Growth is especially robust in emerging markets and holding its own in the U.S.

Geopolitical risks dominated the 1st quarter, adding volatility and uncertainty to the markets. Political unrest caught fire across North Africa and the Middle East. Long-standing governments in Tunisia and Egypt fell and other protests emerged in Syria, Bahrain, Yemen, Iran and even Saudi Arabia. Protests against the Gaddafi regime in Libya led to armed conflict and the United Nations intervened militarily, backed by NATO and U.S. forces.

The most significant economic fallout was, not surprisingly, a jump in oil prices. The cost of a barrel of crude soared to over \$105 by the end of the quarter. This added risk to the global economic recovery and impacted investment markets as well.

Japan experienced a major earthquake and tsunami that devastated the nation's northeast region and damaged a major nuclear reactor, leading to a partial meltdown and radiation leaks in the region. The human toll was devastating with more than 11,000 dead and thousands more still missing. The investment toll was also significant as Japan's stock market fell 15% during the crisis. Global markets also suffered, with broad measures of non-U.S. market performance declining 6-8% in the wake of the disaster. Japan's central bank and other major G7 nations intervened to help weaken Japan's currency. This is intended to and should provide crucial support for Japan's export economy to help finance rebuilding and recovery costs.

More troubling news emerged from Europe as sovereign debt woes continued. Portugal's Prime Minister said his country will likely require bailout debt support from the European Stability Fund and Europe's central bank. While nations such as France and Germany are participating in the global economic recovery, governments in Portugal, Spain, Greece and Ireland are trying to implement austerity measures to overcome their own debt problems.

Even the U.S. was forced to deal with tensions caused by lingering high unemployment and extensive budget cuts by state governments. Through it all, the domestic economy has shown surprising strength in recent months. Employment has improved, export growth is solid and corporate profit growth remains strong.

ECONOMY

THE 1ST QUARTER

We learned at the end of the 1st quarter that the U.S. economy grew at an annualized pace of 3.1% in the closing three months of 2010 with improvement anticipated in 2011. Business investment remains solid, up 6.8% and export growth rose 8.6%, reflecting the benefits of a global recovery.

Corporate profit growth remains impressive and businesses are beginning to invest more of their cash by hiring more employees. The unemployment rate dipped from a peak of 9.8% in November to 8.9% in February as jobless claims steadily declined. Industrial production is up 5.8% while both



the ISM Manufacturing and Service Sectors also showed solid expansion.

Consumer spending patterns have picked up along with the pace of hiring. Retail sales are up 8.9% from last year's level. Sales of autos and other durable goods are particularly strong, a sign that consumers are catching up on long-delayed spending plans

Increased economic activity and the recent spike in oil prices renewed inflation concerns. Still, consumer prices rose just 2.2% over the year ending in February. The bulk of the gain came from energy (up 11.2%) and food (up 2.3%). These are the most volatile components of inflation and many analysts expect both categories to moderate going forward.

LOOKING AHEAD

The economic recovery is likely to maintain momentum with growth of 3.5% to 4.0% anticipated for the rest of 2011. Unemployment should continue its gradual improvement, hopefully ending the year around the 8% level. Corporate profit growth may moderate a bit but still be solid.

The housing market remains in a deep recession and years away from a meaningful recovery. Mortgage applications fell 7.5% during the last week of the 1st quarter. Existing home sales declined 9.6% in February while new homes sales are down 28% from a year ago. To top it off, home prices nationwide have fallen by 5.2% in the past year.

The key risk to growth going forward along with any continuation of unexpected events is another spike in oil prices, which would dampen consumer spending just as it was beginning to rebound.

BOND MARKET

THE 1ST QUARTER

After its first negative quarter in over two years, bonds rode a surprising roller coaster. The yield on the 10-year Treasury note rose from 3.31% at the beginning of 2011 to 3.72% by mid-February. However, yields quickly plunged to 3.21% as global events shook investor confidence in February and March. Another turn occurred in the final weeks of the quarter, resulting in yields gradually rising another 0.25% since mid-March as equity markets recovered.

The Barclays Aggregate U.S. Bond Index gained 0.42% during the 1st quarter as the Federal Reserve remained an active buyer of Treasury bonds. Credit-related bond sectors benefited from an environment where investors were reaching for extra yield. Corporate High Yield bonds gained 3.88%. Bank Loan bonds, Multi-Sector bonds and Inflation-Protected bonds each returned close to 2.5%. Emerging Market bonds and World bonds saw gains near 1.2%. Long-Term Government bonds were the only sector to lose ground, and even that was a modest drop of 0.8%.

LOOKING AHEAD

Although Treasury bonds were relatively flat during the past quarter, the volatility and risk inherent in this sector remains. The uncertainty created by geopolitical turmoil temporarily boosted investor interest in Treasuries. As fears ease, interest rates could again rise, particularly if the economy continues to improve and the Federal Reserve halts its bond buying programs.

The austerity measures put in place by several European nations may improve the market for their bond issues. Emerging Market bonds offer more attractive yields as many of these nations have raised rates to combat the potential of higher inflation. Corporate and High-Yield bonds should also remain well positioned due to strong profits and cash flow.

DOMESTIC STOCK MARKET

THE 1ST QUARTER

The onslaught of unforeseen events in the first quarter also created a roller coaster feel. Stocks rose steadily through mid-February, then briefly gave back all of those gains in the weeks surrounding events in Egypt, Libya and Japan. By the end of the quarter, a modest rebound was underway.

The broad Russell 3000 Index gained 6.38%, far outpacing foreign stock indexes and bonds during the quarter. Small and Mid Cap stocks were the leaders again, gaining 7.6% and 7.9%, while Large Cap stocks rose 6.2%. There was little style differentiation by investors, with Value stocks gaining 6.5% and Growth stocks rising 6.3%.

Sector performance varied widely during the quarter. The spike in oil prices propelled Energy stocks to gains of 17.0% for the period, dwarfing returns in all other sectors. Industrial stocks returned 8.9% while all other industry sectors underperformed the broad market during the quarter. Trailing the pack were two defensive sectors, Utilities and Consumer Staples stocks, each gaining less than 4%.



Performance Update

Market Index	1st Qtr	1 Year	2 Years	3 Years	5 Years
DJ Ind Average	7.09	16.51	30.76	3.08	4.84
S&P 500	5.87	15.29	31.38	2.26	2.54
Russell 2000	7.94	25.79	43.09	8.57	3.35
S&P Mid-Cap 400	9.36	26.95	44.32	10.00	6.07
Russell 3000	6.38	17.41	33.78	3.42	2.95
MSCI EAFE	3.37	10.42	30.59	-3.01	1.30
MSCI Em Mrkt	1.69	15.89	43.33	1.96	8.25
NASDAQ	4.83	15.98	34.88	6.86	3.52
Barclays High Yield	3.88	14.31	33.61	12.94	9.12
Barclays Agg Bond	0.42	5.12	6.40	5.30	6.02
Barclays Credit Index	0.99	6.32	12.35	6.59	6.36
Barclays Gov Bond	-0.08	4.28	2.05	3.66	5.63
Barclays Corp	0.89	7.01	13.71	7.02	6.42

LOOKING AHEAD

The environment for stock investing remains generally favorable with modest inflation and interest rates. Many companies are flush with cash and continue to generate solid profit growth. The money is being used to boost dividend payouts to shareholders and for acquisition purposes. Merger and acquisition activity rose 58% during the 1st quarter, providing more support for the markets.

Growth stocks and those of companies that benefit from a favorable economy should be best positioned. These include Energy, Materials, Financial and Technology sectors. Materials and Technology companies may be best positioned as they could benefit from a potentially weaker dollar and rising global demand. Energy stocks are likely to fluctuate with changes in the oil markets. Regulatory uncertainties still cloud the long-term outlook for the Financial sector.

INTERNATIONAL MARKETS

THE 1ST QUARTER

With much of the headline risk originating overseas, foreign markets lagged domestic U.S. stock markets in the 1st quarter. The primary contributor to this weakness was, not surprisingly, Japan. The natural disaster and nuclear crisis led to sharp sell-offs in Japanese stocks, though they have now begun to recover. By quarter's end, Japanese equity markets were down 4.9%. Despite its sovereign debt issues, European markets were the best performers, gaining 6.5%. Solid economic growth and falling unemployment rates boosted both France and Germany, as they returned 10.6% and 7.5% respectively.

Emerging Markets started the year in negative territory, but rallied late to end the quarter essentially flat. The central banks in Brazil, China and India were forced to actively combat the threat of rising inflation. By March, these efforts appeared to be working, boosting investor confidence. Korean stocks generated the best performance in Asia with a 7.3% gain.

LOOKING AHEAD

Despite the global economic recovery, the dramatic events of the 1st quarter have increased risks going forward. Oil prices will be a primary focus given the situation in the Middle East. The outcome of Japan's cleanup efforts and ongoing nuclear power plant problem will have an impact. So will Europe's continuing sovereign debt crises.

But many encouraging signs remain. Emerging markets such as China, Brazil and India continue to grow dramatically, and should benefit from favorable long-term demographic trends. Emerging markets accounted for 45% of global economic growth in 2010, according to the World Bank. Just 20 years earlier, these markets only represented 11% of the world's economic growth.

In Europe, we remain encouraged by Germany's strong recovery. It should be in a position to lead Europe out of its debt crisis. We also expect Japan's resolve to lead to a rebuilding of its damaged regions, which could be a catalyst for the nation's future growth.

SUMMARY

Our continued focus on achieving long-term results for our clients is even more important in uncertain times like these, even though it can lead to temporary periods of underperformance. The rapid rise of serious inflation threats in emerging markets is an example of how events can have a negative short-term impact. But we're convinced the measures taken to battle inflation risk are succeeding and that the global economic recovery is not at risk. At current valuations, emerging market stocks have room to rise in an environment of global economic growth.

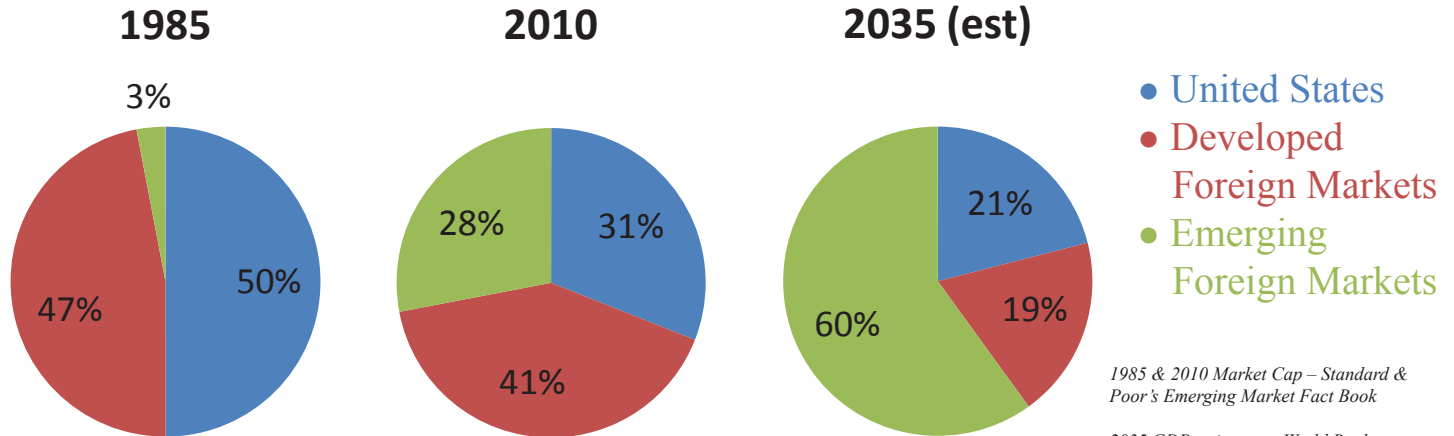
Meanwhile the inflation threat may be shifting to developed markets, including the U.S., largely driven by oil price hikes. We have reinstated a commodities position to help provide a measure of protection for investors.

Perfect economic conditions may exist in textbooks, but not in the real world. We are committed to keeping our focus on long-term valuations, economic fundamentals, risk management and identifying proven investment managers and processes. This will lead to investment opportunities that can create wealth over the long run despite what tomorrow's headlines may bring.



Globalize Your Thinking!

As the world becomes more and more interconnected, the realigning of our global economic stage looks very different every year. As the relative importance of the U.S. and other developed economies shifts to the emerging economies, we as investors in the developed world need to adjust our thinking if we are to fully capitalize on opportunities and help manage risks.



1985 & 2010 Market Cap – Standard & Poor’s Emerging Market Fact Book

2035 GDP estimates – World Bank, OECD, and Goldman Sachs Global ECS Research

Food For Thought – Did You Know?

- Because of aging population, the developed world’s output has shrunk to less than half of the total world’s output.
- 87% of the world’s population lives in the emerging world.
- Like the U.S. Baby Boomers during the 1980’s, the current demographic makeup of the BICK nations (Brazil, India, China and Korea) will propel the emerging economies to new heights.
 - 43% of Brazil is age 25-54
 - 600M of 1.2B citizens in India are under age 24
- Emerging markets are no longer just an outpost for cheap labor, there are hotbeds for research, development and business innovations.
- Emerging markets account for 26% of the global economic output the last three years.
- Emerging markets account for 45% of global growth in 2010.
- China is the world’s second largest economy.
- Unemployment in Brazil is a mere 5.3%.
- The middle class in the West is estimated to shrink to 558M in 2025, while the Asian middle class will grow to 3.6B over that same time period.
- Many emerging counties have minimal debt.
- Emerging economies are forecasted to grow four times faster than developed economies over the next 20 years.

Can you see the forest for the trees? Over the past five months most emerging countries growth has cooled off as interest rates have been raised to slow their engines now. Over this same time period the domestic markets have received more attention and the money flows have significantly pushed the market higher. But, step back from the trees and keep your focus on the long-term emerging market trends. In spite of these most recent setbacks, this is not the time to run away. We believe you need to look at this time as an opportunity to add to your international bonds and equities.

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