



# ALL STAR FINANCIAL

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## Weekly Market Wrap September 4, 2007

### Review - Week Ending 08/31/2007

Stocks rallied on housing comments from both Bernanke and Bush on Friday but still finished mixed for the week. NASDAQ and techs finished positive while other broad indexes were in the red. Bonds firmed though commercial paper and high-yield issuance has given way to investment-grade issuers. Volatility will remain the trend in the weeks ahead.

### Commentary/Highlights

- **The KC Fed annual summit in Jackson Hole saw the Fed take criticism from several academic papers and other central bankers regarding their “inaction” and hands-off approach to asset bubbles.**
- **Both Bush and Bernanke spoke on Friday regarding the sub-prime housing situation.** Bernanke pledged to take actions to prevent damage to the economy and Bush proposed plan to refinance credit worthy borrowers through the FHA. Democrats have also proposed wider relief measures which will likely make to legislative relief this fall. **Today the Fed called on mortgage servicers to determine the full extent of their authority under pooling and servicing agreements to identify borrowers at risk of default and pursue appropriate loss mitigation strategies designed to preserve homeownership.**
- **The 2<sup>nd</sup> quarter is history and despite strong earnings and 4.0% GDP growth, the key question is whether or not the economy can keep growing in face of housing and auto recessions, tighter credit, and consumer and business survey gloom.**
- Bloomberg reports U.S. investors are returning from summer vacation to the cheapest stock market in almost 12 years. **All 10 industry groups in the S&P 500 are valued at a discount to their historical average over the last 10 years, according to data compiled by Bloomberg.** Technology shares cost 74 percent less than the average, the cheapest of the 10 groups. Plus, techs have little debt, lots of cash, and no sub-primes!
- **Wall Street welcomes whenever the Federal Reserve begins a new rate-cutting program.** The Fed started a rate-cutting program 11 times since 1945. In the six-month period after the first cut, the S&P 500 advanced an average 12.3%, versus the average 9.0% in all years since 1945. Yet stock prices fell four of 11 times. **Twelve months after the first rate cut, however, the S&P 500 gained an average 18.8% and posted an increase in 10 of 11 observations.**

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.34%	+2.07%	+3.07%
Lehman High Yield	+0.09%	-2.23%	+0.58%
Dow Jones Industrial	-0.12%	-0.01%	+8.82%
S&P 500 Index	-0.33%	-1.65%	+5.22%
Russell 3000	-0.28%	-2.02%	+4.95%
MSCI EAFE Index	+1.46%	-3.31%	+5.44%
MSCI EAFE Small Cap	+1.80%	-5.50%	+5.72%
NASDAQ Composite	+0.76%	-0.26%	+7.50%
Russell 2000	-0.73%	-4.73%	+1.41%
ASF Income (Beta 0.44)	<b>+0.16%</b>	<b>-1.64%</b>	+2.27%
ASF Balanced (Beta 0.63)	<b>+0.26%</b>	<b>-1.66%</b>	+3.19%
ASF Cons Growth (Beta 0.79)	<b>+0.41%</b>	<b>-1.64%</b>	+4.26%
ASF Growth (Beta 0.92)	<b>+0.55%</b>	<b>-1.57%</b>	<b>+5.40%</b>