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Weekly Market Wrap August 4, 2008

Review - Week Ending 08/01/2008

Stocks finished the week flat and mixed as huge earnings miss by General Motors overshadowed the week's earnings reports. This week brings the last full week of earnings plus a Fed meeting on Tuesday. The Fed is expected to remain on hold, as are the European Central Bank and Bank of England meeting later in the week.

Commentary/Highlights

- **The FDIC failed bank list grew to 8 on Friday, with the addition of a Florida bank.**
- **The recently signed housing bill will help firm the housing market but the recovery will continue to be slow.** Reasons: 1) Another 15-20% price decline until supply/demand goes into balance; 2) Lenders remain cautious; and 3) The recent rise in mortgage rates has crimped bargain hunting demand. Still there are some positives, **the recent monthly decline was the smallest in eight months** and Fannie and Freddie announced last week they are **doubling incentives to loan servicers for modifying loan terms and short sale loans, where lenders agree to modify loan amounts.**
- **Job losses continue to mount**, another 51K jobs were lost in July, sending unemployment up to 5.7%, marking the 7th straight month of job losses.
- **The Fed is expected to remain on hold at this weeks meeting.** The sharp drop in oil prices in recent weeks has given the central bank room to back off inflation fight for now, and allow it to possibly even lower rates again if growth remains sluggish.
- **China** increased its lending curbs for its banks by 5% in an effort to re-ignite small business growth. This the first easing move by the government in eight months, just ahead of the Olympic games.
- **Domestic funds have beaten international funds this year** during the best domestic-fund run since the category outperformed international funds in eight of the 10 months beginning in August 2002. Despite the disparity in performance, investors are still choosing international funds ahead of domestic, with international seeing close to \$18.5 billion in net inflows in the second quarter compared to net inflows of \$11.2 billion for U.S. equity funds, according to Morningstar and Marketwatch.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.82%	+0.00%	+1.13%
Lehman High Yield	-0.88%	-1.81%	-3.10%
Dow Jones Industrial	-0.33%	+0.08%	-13.20%
S&P 500 Index	+0.25%	-1.34%	-13.13%
Russell 3000	+0.37%	-1.27%	-12.18%
MSCI EAFE Index	-1.53%	-4.84%	-16.93%
MSCI EAFE Small Cap	-0.75%	-5.58%	-15.20%
NASDAQ Composite	+0.02%	+0.78%	-12.87%
Russell 2000	+0.86%	+3.94%	-5.80%