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Weekly Market Wrap

June 2, 2008

Review - Week Ending 05/30/2008

Stocks rallied last week, led by small caps and tech stocks, as the recovery of March lows extended through May. This week the focus remains on economic data, with the Friday jobs report key to gauging future consumer strength. Last weeks data showed economic growth remains slow but does not seem to be getting worse.

Commentary/Highlights

- Economists are expecting that the economy lost another 60K jobs in May, mainly in the manufacturing sector. **Stemming job losses will be a key to keeping the consumer and economy healthy** in the months ahead.
- **Inflation expectations remain high.** The Michigan consumer survey shows that consumers expect inflation will run 5.2% in the next twelve months, roughly twice the rate reflected in the TIPS market, which has consistently underestimated inflation. Inflation in Europe is currently 3.6%, well ahead of the European Central Bank's 2% target, virtually assuring no rate cuts from the ECB in 2008. Dallas Fed Chairman Fischer hinted strongly last week that the **Fed will likely remain on inflation fighting hold for a while.**
- **Small caps are back.** Small caps have now pulled ahead of the broader market since the March bottom and could be poised for more relative strength. Ned Davis Research shows that small caps (+19.6%) have typically outperformed large caps (+13.6%) in the months following market bottoms.
- **Commodities remain volatile** and the Commodities Futures Trading Commission last week announced increased surveillance of commodities trading data in conjunction with the UK's Financial Security Authority. They also disclosed an ongoing investigation into oil futures manipulation that began in December 2007. Similar announcements into agricultural futures are expected in the coming weeks.
- **Bond markets are recovering,** removing fears of widespread credit contraction. Investment grade bond issuance was a record \$133b in May, with most issues (147) since January 2003.
- **Financial sector news just keeps getting worse.** Standard and Poor's downgraded Merrill Lynch, Morgan Stanley, and Lehman Brothers, while putting several other banks on negative outlook. Wachovia Bank's board ousted their CEO over the weekend and Washington Mutual restructured their top management in attempt to improve operations after massive mortgage losses.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.86%	-0.94%	+1.21%
Lehman High Yield	-0.27%	+4.69%	+1.53%
Dow Jones Industrial	+1.31%	+3.41%	-3.63%
S&P 500 Index	+1.81%	+6.23%	-3.83%
Russell 3000	+2.06%	+7.15%	-3.05%
MSCI EAFE Index	-0.55%	+5.24%	-4.79%
MSCI EAFE Small Cap	-1.31%	+4.22%	-2.19%
NASDAQ Composite	+3.19%	+10.69%	-4.89%
Russell 2000	+3.37%	+8.97%	-1.81%