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Weekly Market Wrap March 26, 2007

Review - Week Ending 03/23/2007

Stocks had a solid week last week as the Fed remained on hold as expected and existing home sales picked up better than expected in February. This week will bring a boatload of economic data, with key personal income and spending readings to reporting on Friday.

Commentary/Highlights

- **FOMC Statement:** The closely watched Fed statement on Wednesday appeared to indicate that “tightening bias” had been removed. However, the usual vigilance against inflation was emphasized, making it likely that interest rates will remain on hold for awhile. Housing sector adjustments were described as “ongoing”.
- **Iranian Tensions:** Oil has spiked above \$63/bl on tensions generated by Iran’s seizure of 15 British sailors and its insistence on moving forward with its nuclear activities.
- **Foreign small caps:** Citigroup’s European strategist notes that European small caps are currently selling at a 19% premium to large-caps, the highest spread in 15 years. Foreign small caps have had the lowest correlation to domestic stocks in foreign markets but their performance streak may be approaching an end.
- **Tech IPOS Return:** Dealogic reports that 6 technology IPOs are pricing this week, signaling their post-bubble return. Year-to-date 19 of 40 IPO’s have been technology related.
- **Sub-Prime Watch:** Fremont General sold \$4 billion of sub-prime loans at 0.96 cents on the dollar, which may give some idea to the bottom in the market. The biggest risk to the economy may be the removal of liquidity from the mortgage market from overreaction.
- **Barron’s article** cites a JP Morgan study that compared the traditional 60% stock and 40% bond portfolio against a “New Math” portfolio that included 24% allocation to venture capital, hedge funds, real estate, and other alternative assets. During the 2001-2006 period the New Math portfolio outperformed by 270bps with less volatility.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.13%	+1.57%	+1.57%
Lehman High Yield	+0.29%	+2.71%	+2.71%
Dow Jones Industrial	+3.11%	+0.78%	+0.78%
S&P 500 Index	+3.69%	+1.75%	+1.75%
Russell 3000	+3.58%	+2.31%	+2.31%
MSCI EAFE Index	+4.19%	+4.20%	+4.20%
MSCI EAFE Small Cap	+2.98%	+6.65%	+6.65%
NASDAQ Composite	+3.21%	+1.39%	+1.39%
Russell 2000	+3.96%	+3.00%	+3.00%