



# ALL STAR FINANCIAL

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## Weekly Market Wrap March 5, 2007

### Review - Week Ending 03/02/2007

Stocks fell drastically last week, ignited by a 9% sell-off in China stocks on Tuesday. Despite several attempts to regain footing, the “Shanghai Flu” spread to the rest of capital markets. RISK has become a four-letter word on Wall Street, leading to sell-offs in emerging markets, high-yield bonds, small caps, and to a lesser degree technology stocks.

### Commentary/Highlights

#### EXTRA! EXTRA!

#### “GOLDILOCKS MAULED BY BEARS”

- **The sell-off occurred across all sectors and industries, and several reasons are commonly cited in the media, including: 1) China correction; 2) Sub-prime housing; 3) Recession coming; 4) Stocks overvalued; and finally, the 5) Yen Carry Trade. We look at all in our side commentary.**
- **The horse has left the barn:** The Fed proposed stricter regulations for banks that make sub-prime loans **last week**. Also, Freddie Mac raised its criteria for purchase of sub-prime ARMS **last week**. About two dozen mortgage companies have closed or entered bankruptcy in the last few months and several others are in trouble. Major Banks are exiting the sub-prime business. The average down-payment last year, according to the National Association of Realtors was 2%. The Fed needs to guard against the markets overreacting and constricting credit too much in coming months.
- **Risk complacency is over.** According to Market Watch, until Tuesday it had been 45 months since the S&P 500 suffered a **greater than 2% decline**. During the past 75 years, **such an event has occurred eight times a year, on average**.
- **Greenspan Retraction:** Alan (Why not go play golf!) Greenspan uttered the “Recession” word in a speech last week, then emphasized in his next public appearance that he meant it was possible but not probable.
- **Economic Indicators:** The ISM manufacturing index was stronger than expected last week in case anyone cares. The index reading was 52.3, well into expansionary territory, with the new order index at 54.9. The Euro-Zone manufacturing index improved to 55.6, up from 55.5 last week.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.66%	+1.63%	+1.63%
Lehman High Yield	-0.55%	+2.17%	+2.17%
Dow Jones Industrial	-4.17%	-2.32%	-2.32%
S&P 500 Index	-4.38%	-1.92%	-1.92%
Russell 3000	-4.56%	-1.28%	-1.28%
MSCI EAFE Index	-4.46%	+0.05%	+0.05%
MSCI EAFE Small Cap	-4.09%	+3.16%	+3.16%
NASDAQ Composite	-5.85%	-1.96%	-1.96%
Russell 2000	-6.17%	-1.40%	-1.40%