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Weekly Market Wrap March 31, 2008

Review - Week Ending 03/28/2008

Stocks were mixed during the last full week of trading of the quarter. Economic news remains glum; consumer confidence is now at a five-year low, durable goods orders fell, Moody's World Survey of Business Confidence is at five-year low, and the SP Case/Schiller Housing Index shows housing prices declined 11% Y/Y, and continue to fall- bring on the 2nd quarter.

Commentary/Highlights

- **Weekend and morning headlines were dominated by the Treasury proposal to overhaul the regulatory structure of the US financial system. Key points in Paulson's plan:** 1) consolidate oversight power in the Federal Reserve; 2) Eliminate overlapping regulators, state/fed insurance regimes, and merge the SEC and Commodities regulators, as well as the Comptroller of Currency and Office of Thrift Supervision. 3) Increase oversight of bank and investment bank capital requirements. The plan is welcome but is likely to serve as a discussion outline for future legislation with little possibility of seeing the light of day under current administration. Criticisms include the granting of increased power to the Fed, seen by many to be the cause of bubbles under the Greenspan regime. **The WSJ front page highlights another problem, bank regulators have staffs slightly below 1997 levels, and assets have doubled since then.**
- **Commodities have pulled back in recently on fears slowing economy will crimp demand further.** However, global agriculture remains a key investment theme, as evidenced by export barriers in China, India, Thailand, and Vietnam. The World Bank sees international food shortages lasting for two-three years, driven by emerging market demand. Farmers have been on strike in Argentina in response to a grain export tax. Expect more volatility ahead.
- **The dollar had its worst quarter against the Euro since 2004, losing 8.2% during the quarter.**
- **How safe are the yields?** The Schwab Yield Plus Fund has joined and now surpassed other ultra-short bond funds such as Fidelity Ultra-Short and SSGA Yield Plus in double-digit YD losses, as mortgage credit downgrades and massive redemption forced selling has compounded the losses.
- **The Fed must hope interest rate cuts and liquidity actions begin to stabilize markets, otherwise it will need assistance from the ECB/BOJ for additional market interventions.** Liquidity actions to date have stressed half the Fed's balance sheet in just a few months.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.42%	+1.97%	+1.97%
Lehman High Yield	+1.26%	-2.78%	-2.78%
Dow Jones Industrial	-1.12%	-7.17%	-7.17%
S&P 500 Index	-1.03%	-9.99%	-9.99%
Russell 3000	-0.73%	-10.05%	-10.05%
MSCI EAFE Index	+5.15%	-9.23%	-9.23%
MSCI EAFE Small Cap	+6.61%	-6.56%	-6.56%
NASDAQ Composite	+0.14%	-14.75%	-14.75%
Russell 2000	+0.32%	-10.53%	-10.53%