



ALL STAR FINANCIAL

Contact Information: asf@allstarfinancial.com
Main Number 952-896-3820
 Bob Klefsaas 952-896-3816
 Maren Aipperspach 952-896-3817
 Bruce Bonner 952-896-3818
 Paul Sommerstad 952-896-3835
 Nick Hohn 952-896-3823
 Lee Clintsman 952-896-3829
 Valerie Moorhead 952-896-3826
 Diana Turk 952-896-3820

Weekly Market Wrap May 29, 2007

Review - Week Ending 05/25/2007

Stocks were mixed last week with most of the broader indexes in negative territory but small-caps rebounding slightly. Bonds were mixed as well-government and investment grade issues declined, while high-yields showed small gains. Earnings have slowed to a trickle but lots of economic data gets released this week.

Commentary/Highlights

- Thomson Financial shows that **Mergers and Acquisitions (M&A) are on track to set a record in May, with \$500 billion in global deals and nearly \$200 billion in the U.S. alone.** But Reuters warns of the increasing use of leverage in many of these deals. According to bankers the ratio of cash flow/debt service has declined from 2.0X to less than 1.5x, meaning many of the companies could face problems in a recessionary economy or rising interest rate environment.
- **This week is shortened by Memorial Day but contains a full slate of economic data.** FOMC minutes, GDP, Vehicle Sales, and Chain Store Sales are slated for release. Friday alone provides a snapshot of the economy from Jobs, Consumer Spending, ISM Mfg Index, and PCE Inflation Index reports all being released. **Memorial Day also saw a close to the highest U.S. death toll in Iraq in two years.**
- Crude Oil prices have risen steadily and holiday travelers paid more for gas. The Iraq situation and Mid-East tension are the likely culprits because **fundamentals do not support the increase. Crude oil inventories have risen from 320 barrels in March to 350m barrels in May. Natural gas is also 20% above its 5-year average inventory level.**
- **Global risks highlighted** by Morgan Stanley and Bridgewater Associates include **falling dollar, rising interest rates, increasing inflation and widening in credit spreads.** Bridgewater views emerging market bonds and commodities as assets that would benefit in such a scenario.
- **Earnings Trends:** Earnings reports are 90% complete and Zacks reports 10.2% median growth, making a 19th quarter of double-digit growth a likely prospect. Revisions and surprises remain positive as well.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.16%	-0.15%	+1.35%
Lehman High Yield	+0.15%	+2.02%	+4.71%
Dow Jones Industrial	-0.32%	+9.62%	+9.41%
S&P 500 Index	-0.43%	+6.98%	+7.74%
Russell 3000	-0.29%	+6.43%	+7.79%
MSCI EAFE Index	-0.26%	+4.22%	+7.89%
MSCI EAFE Small Cap	+0.44%	+3.07%	+10.48%
NASDAQ Composite	-0.05%	+5.60%	+5.88%
Russell 2000	+0.77%	+3.79%	+5.81%