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Weekly Market Wrap November 12, 2007

Review - Week Ending 11/09/2007

Stocks went into freefall last week on a cascade of negative news. GM announced a record \$39 billion loss, more sub-primer losses were uncovered, and Bernanke testimony told Congress he expects 4th quarter growth to “slow noticeably”. To top it off-oil keeps flirting with the \$100/barrel price level-another dagger in the consumer.

Commentary/Highlights

- **Federal Reserve Chairman Bernanke’s testimony last week was less than cheery**, suggesting a slower growth economy with considerable risks to navigate. Nomura Securities estimate that risks outlined could result in GDP growth 0.50%-1.25% slower than baseline forecasts. **The key risks to economy remain: 1) Higher than expected energy prices; 2) Sharper drop in home prices; and/or 3) A Credit Crunch that impedes credit to consumers and businesses. Supply and demand should cure #1, time should cure #2, #3 is scary.**
- **More sub-prime related losses rocked the financial sector last week.** Morgan Stanley \$3.7 billion, AIG \$2.9 billion, and Wachovia \$1.1 billion were the headliners. Rumors of Bank America, ETrade, and more HSBC losses are circulating. *“Banking establishments are more dangerous than standing armies”-Thomas Jefferson.*
- **Breakingviews.com cited 10 reasons \$100 oil is sustainable.** 1) Oil in storage tanks at all-time high; 2) Proven reserves are up 12% in past ten years according to BP, 3) High prices have encouraged drilling, 45% more rigs in service than three years ago, 4) Production costs are at most \$30/bl even in Canada oil sands, and 5) Iran’s exports are unlikely to be cut-represent 50% of their GDP. More reasons next week.
- **China’s central bank has moved to slow growth and inflation by raising the reserve requirement for banks.**
- **Now is the best time of the year to invest. During the last 57 years November-April returns have averaged 6.52%, while May-October returns have averaged 0.98%.**
- **On July 6th the SEC abolished the “uptick rule” for selling short, which was originally designed to stabilize markets. The S&P 500 has declined over 5% and average volatility has increased 62% since the change. Good job SEC!**

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.07%	+1.52%	+5.42%
Lehman High Yield	-0.99%	-0.70%	+2.49%
Dow Jones Industrial	-4.02%	-5.89%	+6.70%
S&P 500 Index	-3.67%	-4.59%	+4.15%
Russell 3000	-3.57%	-4.33%	+4.06%
MSCI EAFE Index	-2.19%	-0.31%	+10.55%
MSCI EAFE Small Cap	-2.84%	+2.16%	+9.23%
NASDAQ Composite	-6.49%	-2.72%	+8.80%
Russell 2000	-3.17%	-4.02%	-0.99%