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Weekly Market Wrap October 8, 2007

Review - Week Ending 10/06/2007

Stocks were buoyed by a positive employment report on Friday which pushed stocks higher, putting the S&P 500 Index above its July highs, and setting an all-time high for the index. This week brings more data on the economy and critical earnings reports from canaries Alcoa and General Electric. Full earnings reports begin next week.

Commentary/Highlights

- **The market focus will gradually shift to corporate earnings and away from the Fed** in the coming weeks. Economic data may well be strong enough to cause **the Fed to pause at the October 31st meeting**, though future interest rate reductions remain likely.
- **The key to additional gains will be corporate profits**, which are estimated at 3% growth for the 3rd quarter. However, if trends continue, **final profit growth could be a healthy 6-9%**. This would put an end to 18 quarters of double-digit growth but would still be strong enough to build on market gains.
- **A positive tone has definitely overtaken the market, witness last week, with billions of announced write-downs from Citigroup, Merrill Lynch, and Deutsche Bank, stocks still moved up. This summer, even the rumor of write-downs led to selling.**
- **The corporate bond market is improving, both investment grade and high-yield sectors. Improvement comes just in time for funding of several big M&A deals.**
- **High yield and corporate bond spreads have almost doubled since their historic lows early in the year. Latest Lehman corporate bond spread is 145bp, with the Merrill Lynch High Yield spread over treasuries at 434bp.**
- **The housing market still stinks. The Case-Shiller Housing Price Index fell 3.2% nationally during the 2nd quarter and further declines remain. The Pending Home Sales Index suffered its largest decline in its six-year history last month and normally leads home prices.**

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.10%	-0.10%	+3.74%
Lehman High Yield	+0.54%	+0.54%	+3.77%
Dow Jones Industrial	+1.27%	+1.27%	+14.81%
S&P 500 Index	+2.05%	+2.05%	11.40%
Russell 3000	+2.38%	+2.38%	+11.36%
MSCI EAFE Index	+1.57%	+1.57%	12.63%
MSCI EAFE Small Cap	+2.56%	+2.56%	+9.66%
NASDAQ Composite	+2.92%	+2.92%	+15.11%
Russell 2000	+4.91%	+4.91%	+8.22%