ALL STAR FINANCIAL
Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

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Uncertainty Rises—Takes a Toll On Overseas Markets

Investors seek refuge in the U.S. dollar

The U.S. Stock market ended the third quarter in roughly the same position where it started three months earlier. Even then U.S. stocks significantly outperformed foreign stocks during the period. Still, there were pockets of strength in overseas markets amid the generally dour environment.

Global investors have taken on a "flight to safety" mindset, shifting money into U.S. markets in recent months. This is not surprising given the number of headline events that have arisen. The conflict between Russia and Ukraine resulted in sanctions on Russia, slowing European trading activity. Tensions in the Middle East, spanning Iraq, Syria, Gaza and across the region have limited trade and travel in those markets.

Through it all, the U.S. economy proved to be surprisingly resilient. The nation's gross domestic product or GDP reversed a 1st quarter decline, growing at a 4.6% annualized rate in the 2nd quarter. Growth in the 3% range is anticipated when 3rd quarter numbers are reported at the end of October. The U.S. economy is a bright spot among developed markets worldwide.

While we'd prefer to see more robust growth, the Federal Reserve (the Fed) is convinced the economy can stay on track while it continues to scale back its bond purchases (quantitative easing). However, the Fed will keep interest rates low until later in 2015. Rising global tensions have helped strengthen the dollar (up 6% in the 3rd quarter). Lower interest rates in Europe and Japan have also made U.S. Treasuries more attractive to investors.

The European Central Bank was more aggressive during the 3rd quarter, cutting its key benchmark interest rate twice to encourage bank lending. This led to a decline in the value of the euro, Europe's common currency, but that should improve the attractiveness of European stocks in the months to come.

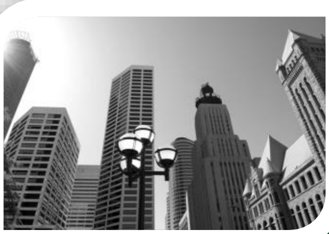
BOB'S CORNER

Overseas Markets Get Cheaper

As your trusted financial advisor I am confident you have heard the word **VALUE** from us more than just a couple of times. This is because that is one of the tenets we live and for short periods of time, die by. We are at the top of a 6 year bull market and as a result, value managers underperform until we see a downturn in the market. For almost five years now international markets have underperformed the domestic equity world, and hence our underperformance.

Patience is the key at this time! Would you rather invest in a domestic equity that is 25% above the 2007 peak or an international equity that is 25—40% under its peak in 2007? **Buy Low—Sell High.**

Patience is the key!



BUILD WEALTH. RETAIN WEALTH.

All Star is passionate about providing a safer way to a successful retirement for people who are serious about their money but uncertain about how to nurture it.

ECONOMY

Slow but steady progress

The job market, a key driver of recent economic growth, continued to improve. Unemployment dropped to 5.9%, its lowest level since the early days of the recession in August 2008. An average of 200,000 jobs per month have been added this year, probably enough to keep the economy on track. Personal income and spending both rose more than 4%.

The housing market has been less consistent, with progress seeming to ebb and flow in response to changing interest rates. The Fed's plan to keep interest rates low however should keep the housing market moving in the right direction into 2015.

Another positive economic development was a drop in energy prices. That offset higher food and health costs, helping to keep inflation in check. With inflation under control, consumers retained additional spending power. That is generally favorable for the economy, which also tends to benefit equity markets.

Business spending and investment is also coming to life, up 8.4%. This has been one of the missing ingredients of the recovery. Sentiment is rising among consumers, businesses and investors in recent months, likely helping to spur more business spending.

Looking Ahead

Investors should be prepared for a more volatile economic environment as 2014 winds down. One reason is the Fed's planned end of quantitative easing. When such policy changes occur, the bond market often reacts in an erratic fashion. A second concern is the midterm Congressional elections that could shift power in Congress and potentially alter fiscal policy. That may have an impact on the economy.

Yet the Fed seems to be in a position to maintain low interest rates well into 2015. This is more easily accomplished thanks to continued low inflation, declining interest rates in Europe and Japan, and growing geopolitical tensions that is driving global capital to the "safe haven" of U.S. Treasuries.

We anticipate that the economy will stay on track, ending with growth in the 2% to 2.25% range this year, but potentially improving to more than 3% in 2015. A healthier job market should boost consumer and business spending, helping to support continued growth.

BOND MARKET

Mixed returns as interest rates fluctuate

Most bond sectors were flat to negative during the 3rd quarter, but there were clear winners and losers. As measured by the broad Barclays Aggregate Bond Index, the bond market was nearly flat (+0.2%) for the quarter. U.S. government bonds gained a modest (+0.3%), but long-term, 20+ year U.S. government bonds jumped (+2.6%) for the period.

The market was less favorable around the world. As the Barclays Global Aggregate Bond Index fell (-3.1%). It was a reflection of significant weakening of global currencies versus the dollar. The JPM Emerging Bond Index held up better, declining just (-0.6%). Asian bonds and corporate bonds issued by emerging market companies fared better than most bonds issued by developed nations during the quarter.

Some parts of the U.S. market also struggled. Corporate high yield bonds fell (-2.0%) as a trend toward tightening credit spreads appeared to reach its limit. Treasury Inflation Protected Securities (TIPS) also lost (-2.0%) with inflation risks reduced.

Looking Ahead

The consensus view of bond strategists is that interest rates will trend higher on the short end of the curve through the rest of this year and into 2015. Some forecasters see the yield on the benchmark 10-year Treasury reaching 3.5%, a full 100 basis points above current levels, by the end of 2015.

Yet there are reasons to believe that long-term rates could stay in the 2% to 3% range for some time. The Fed seems content to keep rates that it controls at low levels. More importantly, Treasury bonds remain in demand globally and continue to be a safe haven in light of world events.

Emerging corporate bonds and high yield bonds offer attractive yields in a low interest rate environment. They are also even more attractive given the low level of defaults in these more volatile sectors of the market. Value can also be found among short-term bonds and floating rate bonds as a hedge against rising interest rates.

Portfolio Note—An important development at the end of the 3rd quarter that caught the investment world off guard was the sudden departure of founder Bill Gross from the bond management giant PIMCO. We moved money out of Gross' PIMCO fund several years ago, shifting it to the PIMCO Income Fund, run by the firm's newly-named CEO Dan Ivascyn. PIMCO bond funds remain in our mix as we believe in the firm's investment process, and are less concerned with personalities who manage funds.

DOMESTIC STOCK MARKET

Large caps up, others struggle

"It's Not How Much You Make, It's How Much You KEEP!" –Bob Klefsaas

Like the bond market, the U.S. stock market was a mixed bag during the 3rd quarter. Large-cap stocks managed a narrow (+0.7%) gain for the period, but small and mid-cap stocks declined (-7.4%) and (-1.7%). Smaller stocks have had a difficult time maintaining earnings growth after generating strong returns in 2013. Within the large-cap category, growth stocks gained (+1.5%) thanks to an improved outlook for healthcare and technology stocks. Value stocks were relatively flat for the quarter (-0.20%).

Corporate profits climbed at a better-than-expected rate of 10% in the 2nd quarter, and revenues rose +4%. The business environment has benefited from the favorable direction of the economy. Low interest rates, high cash reserves and record stock buybacks have added support to domestic stock prices in recent quarters.

Growth-oriented sectors enjoyed the best performance during the quarter spurred on by improved business spending and new product launches. Health Care stocks gained (+5.5%) while Technology stocks rose (+4.8%). On the other end of the spectrum, Energy stocks declined (-8.6%) due to falling oil prices and reduced global energy demand. Utility stocks were down (-4.0%).

INTERNATIONAL MARKETS

Fragile recoveries dampen returns

Foreign stock markets significantly lagged U.S. stocks in the 3rd quarter as rising global tensions, weakness in Europe and a strengthening dollar led to lackluster consumer and business demand in most foreign markets. The broad MSCI EAFE Index declined (-5.9%) for the quarter. European stocks were down (-7.0%), as sanctions placed on Russia due to its conflict with Ukraine dampened business activity throughout Europe.

China's market rose (+1.4%) largely on the strength of the highly touted initial public offering of giant online retailer Alibaba. Japan's stocks declined (-2.3%) for the quarter, although Prime Minister Abe continues to pursue his economic revival strategy. Emerging Market stocks fell just (-3.5%) for the period as China's market recovered and political changes in India and Brazil fueled investor optimism.

Looking Ahead

Valuation levels in the stock market have become more attractive since the beginning of the year as corporate earnings have improved while stocks prices have increased only modestly. Even with an increasing number of global "hotspots," U.S. markets experienced limited volatility. But more can be expected in the closing months, due at least in part to the end of the Fed's quantitative easing and other developments around the globe.

If business spending continues to improve as expected, it should work in favor of growth stocks, particularly in the industrial and technology sectors. Look for companies to continue to fund stock buybacks, boost dividends and pursue mergers and acquisitions, all generally favorable catalysts for stocks.

Corporate profits are forecast to rise 8% for the year, but could jump to the 10% to 12% range in 2015. The big question is when profit margins will reach a peak for this cycle.

Looking Ahead

The European Central Bank aggressively cut interest rates during the 3rd quarter in an effort to encourage more bank lending. This should work to the advantage of European stocks and perhaps give the euro a boost.

The outlook for Asia is favorable as well. The economies of China and Japan are both in transition. An issue worth watching is the large pro-democracy demonstrations in Hong Kong that could create challenges for China's government.

Foreign markets remain fragile, as economic recoveries in Europe and Japan are in their early stages and major emerging markets like China, Brazil and India are undergoing political transitions. Investors need to recognize the diversification value of global investments and focus on the long-term opportunity. They are a great buy!

PERFORMANCE UPDATE

The Third Quarter

All Star Portfolios	3 Yr Beta	3 Yr Alpha	5 Yr Beta	5 Yr Alpha	3rd Qtr	1 Year	3 Years	5 Years
Income	0.52	-2.18	0.48	-0.14				
Balanced	0.63	-0.69	0.63	0.18				
Cons Growth	0.75	-1.26	0.73	-0.27				
Growth	0.75	-0.79	0.79	-1.01				

Beta & Alpha (vs. Global BMI)

Market Index	3rd Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	1.87	15.29	19.02	14.85
S&P 500	1.13	19.73	22.99	15.70
Russell 2000	-7.36	3.93	21.26	14.29
S&P Mid Cap 400	-3.98	11.82	22.43	16.37
Russell 3000	0.01	17.76	23.08	15.78
S&P Global BMI	-2.76	11.24	17.34	10.87
MSCI EAFE	-5.88	4.25	13.65	6.56
MSCI Emerging Mkts	-3.49	4.30	7.19	4.42
NASDAQ Composite	2.24	20.61	24.57	17.51
Barclays US High Yield Bond	-1.87	7.20	11.09	10.57
Barclays US Aggregate Bond	0.17	3.96	2.43	4.12
Barclays Global Aggregate Bond	-3.14	1.19	1.16	2.69
JPM Emerging Bond Diversified	-0.59	9.67	7.95	8.03
Barclays US Government Bond	0.32	2.28	1.06	3.11
Barclays US Credit Bond	-0.03	6.64	4.82	6.10

The above annualized total returns and betas represent All Star Financial models. Your actual beta may differ depending on your portfolio holdings.

SUMMARY

Stocks remain fairly valued and look particularly attractive when compared to the low interest rates offered on most bonds. Foreign markets still offer the best value, but come with higher volatility, as the last quarter demonstrated.

It is notable that the U.S. stock market has now exceeded the previous highs reached in 2007 (pre-recession). Foreign stocks have yet to fully recover from the bear market of 2007 to 2009. The MSCI EAFE index is 25% below its pre-recession peak, while the S&P 500 is 25% above its previous record. Foreign stocks seem to have significant upside potential.

What seems clear as the 4th quarter begins is that returns in 2014 won't duplicate the stellar performance stocks enjoyed in 2013. We hope the markets will add to the modest gains generated so far this year, but some believe stocks are overdue for a correction. Time will tell what will happen in the short term, but opportunities generally remain favorable for investors with a long-term perspective.

What To Do...With Your Old 401(k) Plans

1. Should I just leave the funds where they are?

2. Roll the funds into my current company's plan?

3. Or open an IRA and roll the money into it?

4. Or "Take the money and run"?

Like many people, you may still have a 401(k) account sitting with a former employer. So what should you do with that money?

1. Just leave the funds where they are? (Hmm...seems inefficient – and may not even be possible)
2. Roll the money into your new or current employer's benefit plan? (...assuming they have a plan and it's a good one)
3. Roll it into your own Individual Retirement Account (IRA)?
4. Cash out part or all of the money? (Although quick cash is nice, this can be the most costly option in the long run)

Each choice above has advantages and disadvantages. The *most important* goal with any decision you make is to preserve the tax advantaged status enjoyed in your retirement account. The first 3 of 4 options above accomplish this goal – so let's just dismiss option #4 as problematic. If you cash out (receive a check payable to you from your former employer's plan), you will have to say good-bye to a significant portion of the balance. An early-withdrawal penalty of 10% (if under the age of 59 ½) may be assessed. In addition, depending on your tax-bracket, you may be paying the state and federal taxing authorities 30-40% of the value of the account. Add it up, and you instantly say goodbye to a whopping 50% of the money you worked so hard to save. Be aware too, that this kind of sizable distribution just may push you into a higher tax bracket.

Yet this is often the choice made by younger people with the mindset of "take the money and run". [1] They actually may have the most to gain by keeping their tax-deferred savings working for them over the long term. To use one hypothetical example, a 30-year old who cashes out $16,000 could lose nearly $500 in monthly retirement income if he or she retires at age 67 and lives to age 93. [2]

Onto the other options: 1) Leaving the funds where they are may result in increased administrative and account maintenance costs. If your balance is below certain minimums, your employer may force you to move the money out. Consolidating to one plan is recommended to avoid duplicative and unnecessary costs. 2) If you have a plan at your current employer, it may not allow for rollovers but if it does, doing a "plan-to-plan transfer" lets you continue to build on your investment earnings in a tax-deferred way. It also simplifies management of the funds, as you keep all of your retirement plan savings in one account. Check with your Human Resources Department about this option. 3) Opening an IRA at a discount broker may be the choice for you if your employer doesn't have a plan or doesn't allow for rollovers. IRAs typically offer a much wider range of investment options than you'll find in a workplace plan. In addition, the administrative and transaction costs are typically lower, and the funds are actively managed in a way that is consistent with your risk tolerance and ultimate investment objectives.

Here at All Star Financial, we've helped many of our clients smoothly roll their old 401(k) plans into an IRA that we can then efficiently manage for them. We can build a portfolio by choosing the best among thousands of mutual funds and ETFs. If you or someone you know still has a 401(k) with a previous employer, whether the job change was recent or from years ago, we are more than happy to help identify the best options for that money. Give us a call today!

[1]Source: Employee Benefit Research Institute, 2013
[2] CNNMoney, February 2014

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OUR MISSION IS TO HELP YOU ACHIEVE YOUR DESIRED STANDARD OF LIVING AND FINANCIAL PEACE OF MIND.

The experienced All Star team of professionals is dedicated to understanding your individual needs and objectives, offering a comprehensive wealth management platform designed with one purpose in mind — to serve you, the valued client.

JUST FOR FUN

Restaurant Recommendation

Our recommendation for this quarter is the **BLVD Kitchen and Bar** off 394 in Minnetonka. It's an American bistro with an unexpected twist on traditional bar and grill fare. Upscale casual cuisine for dinner out, meetings and other occasions. The comfortable eclectic atmosphere blends urban loft with European farmhouse. Exposed brick walls, reclaimed wood floors, subway tile, modern lighting, found furniture pieces, & art objects complete the inviting design. Fall in the Twin Cities is a beautiful opportunity to explore new places & enjoy the cool and crisp air!

Josiah's Family Recipe

Golden Pear Soup

Canola Oil
1 ½ lbs butternut or any winter squash
3 medium pears – not bosc or Asian
1-2 tbsp of unsalted butter
½ tsp cinnamon
¼ c + I tbsp. dry white wine, divided
1 ½ tsp salt
½ cup half & half or milk @ room temp
few dashes white pepper crème fraiche, stirred until supple

Preheat oven to 375 degrees. Line a baking pan with foil and slick it with canola oil. Split the squash in half lengthwise, discard seeds. Place halves cut side down on prepared tray. Bake for 35 minutes or until fork-tender. Remove from oven. Cool. Scoop out flesh and cut into 2-inch pieces. Peel and core pears. Cut into thin slices. Place 1 tablespoon butter in soup pot. When it is melted, swirl to coat pan, then add pear slices and cinnamon. Sauté for about 5 minutes, stirring frequently and adding remaining butter if pears start to stick. Add 1/4 cup wine and turn down heat. Cover and simmer for about 10 minutes. Add squash, 4 cups water and salt and bring to a boil. Return heat to a simmer, cover pot and cook for another 5 minutes. Puree with an immersion blender or in a food processor or blender. Heat very gently. Drizzle in half-and-half or milk, adding the extra tablespoon of wine as it heats. Season to taste with a small amount of white pepper and serve hot, topped with a touch of crème fraiche and a sprig of fresh mint, if desired.
** Serves 4-6 people

Quote of the Quarter

"The main ingredient of stardom is the rest of the team." – John Wooden

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