Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

FOURTH QUARTER 2014

VOLUME 21 ISSUE 4

Oil Falls as the Dollar Rises
U.S. Large Cap Stocks Stand Out in Volatile Global Marketplace

Would any of us have imagined six months ago that oil prices today would be almost half of what they were then? The dramatic drop, reflected at the gas pumps, gave an unexpected boost to the U.S. economy in the 4th quarter. Consumers had more money available to spend in other ways and the increased confidence in their financial standing, reflected in improved automobile sales.

The precipitous drop in oil prices also benefited oil-importing economies such as the U.S., China and India. Industries like airlines and retail firms benefited as the focus of consumer spending shifted away from energy. The environment benefited the job market and the rate of economic growth (measured by Gross Domestic Product or GDP) in the U.S. On the other hand, countries that are major oil exporters – Russia, Brazil and Mexico – faced difficult times. Up to 50% of Russia's economy is based on oil revenues, and crashing oil prices combined with sanctions imposed for its conflict with Ukraine put Russia's economy on the brink of a deep recession.

The U.S. economy was among the leaders in a world that experienced more economic challenges in the second half of the year. Fragile recoveries in both Europe and Japan stalled late in the year. Both the European Central Bank and Japan's government took additional steps to try to stimulate growth. At the same time, the Federal Reserve stuck to its word and brought an end to its "quantitative easing" bond buying program in October. Although it pulled back from this form of economic intervention, the Fed indicated that it will hold the line on short-term interest rates until later in 2015.

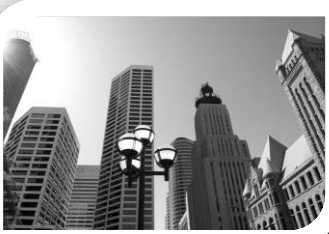
BOB'S CORNER

Welcome Brian and Corina

After Maren retired our plans for a succession of duties changed a bit. Rather than distribute the work load to young staff, we decided to bring in a more veteran team.

We want to welcome Brian Senske as our new Chief Operating Officer and Chief Compliance Officer. Brian was an intern at All Star 12 years ago, is a graduate of St. Olaf College, and has his Masters in Accounting. After working for Ernst & Young, Brian switched to the private domain in a Controller/CFO role for the last 6 years. Brian is married to Jacqueline and they have 3 boys, ages 2, 4 and 6.

Corina is joining the team after 5 years at Amerprise. She will work in a client facing role as an account executive and marketing specialist. Corina is single and lives south of the river close to her family. Please join in welcoming our two newest members. We are fortunate to have them!



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

More Jobs + Cheaper Gas = More Spending

The U.S. economy grew by an annualized rate of 5% in the 3rd quarter, according to the government's revised estimate released in December. Growth might not match that torrid pace in the 4th quarter (the government releases 4th quarter data at the end of January), but the U.S remains the standout economy among all developed markets.

While cheaper gas is the headline story, increased hiring by companies is another important development. The economy added an average of more than 200,000 jobs per month over the previous ten months. That number accelerated to 278,000 per month on average for the prior three months. Unemployment is down to 5.6% and some are predicting the economy will reach "full employment" by next Christmas. What appears to be a strong holiday shopping season should also contribute to the favorable growth trend.

In addition, industrial production improved toward the end of the year and auto sales, energy production and technology all showed solid growth. Capacity utilization for U.S. industries exceeded 80% for the first time since the pre-recession days of 2007.

Housing remains a weak spot in the economy. Residential investment grew at a rate of just 2% in 2014. Home sales actually declined since mid-year and homeownership rates remain 5% below the peak reached earlier in the decade. Homebuilder surveys showed renewed optimism about the housing market in 2015.

Looking Ahead

We anticipate the U.S. economy will maintain its momentum and grow at a rate of 3.0% to 3.5% in 2015. The economy should continue to benefit from low oil prices, as supply continues to outpace demand.

Lower oil prices could stall investment in the energy sector, but there is room for improvement in business spending. We project growth at a rate of 6% in 2015. An area worth watching closely is wage growth. It may be the only significant source of an inflation threat in the coming year. If inflation remains in check, the Fed may be able to hold the line on interest rates longer than expected. If economic growth accelerates, the Fed may be inclined to push rates higher.

BOND MARKET

Lower Oil Prices
Hurt High Yield and Foreign Bond
Hit Hard by Dollar Strength

Returns were mixed in the bond market during the 4th quarter, as investment grade and dollar-denominated bonds generated gains, but non-dollar and high yield bonds lost ground. Falling oil prices had a negative impact on corporate high yield and bank loan funds. Each sector has notable exposure to the energy industry, which suffered as credit ratings were downgraded in light of the rapid drop in oil prices.

Foreign and emerging market bonds suffered as the dollar gained strength. Credit quality across foreign bond markets remained strong, with the notable exception of Russian bonds. Those issues were downgraded as the ruble collapsed and Russia's economy was battered by oil price trends.

The yield on 10-year Treasury bonds declined 35 basis points during the quarter. Investors appear to be attracted to the perceived safety of U.S.-issued bonds in the current global economic environment. We shifted emerging bond exposure to a dollar-denominated fund to capitalize on this trend. Our bond managers also shortened durations and increased cash positions to help defend against the risk of rising interest rates.

Looking Ahead

The consensus view entering 2015 is that interest rates are likely to rise again. The 10-year Treasury yield, which stood at 2.17% at the end of 2014, could easily rise to the 2.5% to 3.0% range this year. But it may take time. With the Fed holding the line on short-term rates and other central banks around the globe reducing rates to stimulate economic growth, no dramatic change should occur anytime soon.

Good value and relatively attractive yields can be found in emerging market and high yield bonds, bank loans and other credit-related sectors. Default rates remain stable and expectations of economic growth should improve prospects for these segments of the bond market.

DOMESTIC STOCK MARKET

U.S. Stocks Set the Pace Globally

Steady improvement in the U.S. economy helped companies continue to increase profits as 2014 came to a close. Earnings of the S&P 500 companies rose 9% for the quarter and were on pace to rise 7% for the year. Profit margins remain near all-time highs even as businesses begin to spend more on their growth, which includes a significant pickup in hiring.

The Russell 3000 Index of U.S. stocks gained 5.2% in the 4th quarter, outpacing all developed markets globally. All industry sectors except energy and materials stocks participated in the strong finish to the year. Energy stocks were hit hard (-12%) as oil prices continued to fall. Materials stocks (-1%) also fell in conjunction with a decline in commodity prices.

Small-cap stocks, a lagging segment of the market all year, rallied in the 4th quarter, outpacing mid- and large-cap stocks. The Russell 2000 Small Cap Index gained a whopping 9.7% during the quarter. Smaller companies benefited from a boost in consumer spending and a lack of reliance on exports, an area of business activity that suffered as a result of the strengthening dollar.

Looking Ahead

As the bull market in the U.S. approaches its 6th anniversary, domestic stocks look fully valued compared to overseas stocks. Given the continued low level of interest rates, however, stocks remain attractive compared to bonds in the domestic market. There is every reason to believe that, with continued growth in the economy, corporate earnings will improve again in 2015, creating additional upside potential for stocks.

The primary area of concern in the U.S. equity market is the energy sector. Earnings are projected to decline by 27%. With oil prices at such low levels, energy production and investment will likely face cutbacks. Although the energy sector offers the most value in the current environment, investors will likely have to be patient before seeing a recovery.

The fundamental foundation for stocks – low interest rates, low inflation and an improving job market/economy – is sound as we enter 2015. Increased merger and acquisition activity and Initial Public Offerings (IPOs) of emerging companies could provide a further boost for the markets. Yet given the likelihood of Fed interest rate policy changes and other events that could be on the horizon, stocks will also likely incur more periods of volatility.

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

INTERNATIONAL MARKETS

A Stronger dollar amid economic Weakness leads to negative returns

Weakness in major economies including Europe and Japan and the surprising strength of the dollar created a difficult investment environment for those who own overseas stocks during the second half of the year, but particularly the 4th quarter.

The impact of declining energy prices also took a toll on oil-exporting countries ranging from Canada and Mexico to Brazil and Russia. Russia's worsening economic situation led its stock market to fall by 35% in the 4th quarter alone. However Russia represents a very insignificant position in the broad global equity marketplace.

The upside of cheaper oil prices was felt in energy-consuming countries such as China, Germany and India. Markets in all three countries managed modest gains during the quarter. Yet investors enter 2015 with reservations about prospects for global stocks given a variety of geopolitical risks that still linger. This presents an opportunity.

Looking Ahead

Despite the challenges global markets have faced, we continue to believe international diversification is an important strategy for investors. Opportunities always present themselves. Currently, we find valuations in Europe to be among the most attractive worldwide. Earnings growth for European stocks should exceed that of U.S. stocks in 2015. At the same time, European stocks appear to be as much as 20% to 40% cheaper than U.S. stocks.

We're also closely watching for progress in certain countries that are instituting economic reforms. There are promising signs in China, India, Brazil and Japan. Progress on that front could encourage investors. In addition, both the Bank of Japan and the European Central Bank are expected to expand their aggressive monetary policy programs in 2015. This all could help lay the groundwork for significant upside potential for global stocks.

Stock Index	Price-to-Earnings Ratio	Dividend Yield%
Russell 3000 (U.S.)	18.3X	1.57%
MSCI EAFE (Foreign)	15.6X	3.48%
MSCI Emerging (Emerging)	12.8X	1.69%

PERFORMANCE UPDATE

The Fourth Quarter

All Star Portfolios	3 Yr Beta	3 Yr Alpha	5 Yr Beta	5 Yr Alpha	4th Qtr	1 Year	3 Years	5 Years
Income	0.47	-0.14	0.48	0.35				
Balanced	0.60	0.68	0.63	0.43				
Cons Growth	0.69	-0.46	0.73	-0.15				
Growth	0.78	0.10	0.79	-0.61				

Beta & Alpha (vs. Global BMI)

Market Index	4th Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	5.20	10.04	16.29	14.22
S&P 500	4.93	13.69	20.41	15.45
Russell 2000	9.73	4.89	19.21	15.55
S&P Mid Cap 400	6.35	9.77	19.99	16.54
Russell 3000	5.24	12.56	20.51	15.63
S&P Global BMI	0.64	4.36	14.61	9.92
MSCI EAFE	-3.57	-4.90	11.06	5.33
MSCI Emerging Mkts	-4.50	-2.19	4.04	1.78
NASDAQ Composite	5.70	14.75	23.60	17.19
Barclays US High Yield Bond	-1.00	2.45	8.43	9.03
Barclays US Aggregate Bond	1.79	5.97	2.66	4.45
Barclays Global Aggregate Bond	-1.04	0.59	0.73	2.65
JPM Emerging Bond Diversified	-0.55	7.43	6.13	7.57
Barclays US Government Bond	1.86	4.92	1.40	3.70
Barclays US Credit Bond	1.76	7.53	4.84	6.25

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

SUMMARY

We've come a long way since the depths of the Great Recession in 2008. The U.S. economy is finally seeing the benefits of the Fed's quick actions beginning then, and the Fed is at long last scaling back its interventionist efforts. Companies are picking up the pace on hiring. These feel like the best times we've seen since the 1990s.

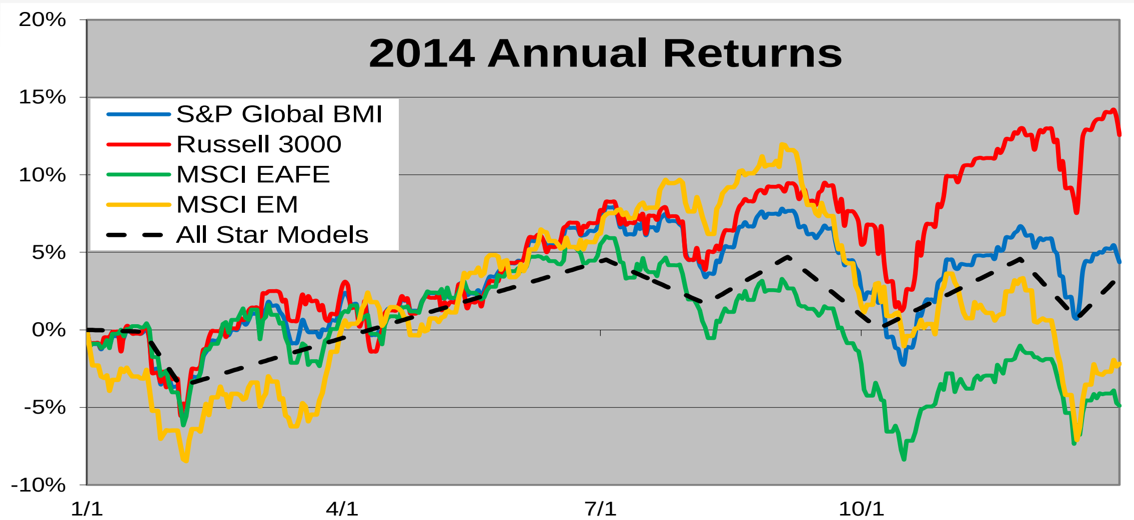
Much of the rest of the world is having a hard time keeping up. Many markets outside of the U.S. face notable challenges, but in an environment where the world is interconnected, it is only a matter of time before foreign markets recover.

Investors, as always, should be prepared for the unexpected. We need only recall that a year ago, few of us would have predicted a dramatic drop in oil prices, the recovery of the dollar's value against foreign currencies and the range of geopolitical issues that arose.

The best way to prepare for the uncertainties of the market is to invest in a diversified, "all weather" portfolio of All Star investments.

Domestic Market Rules in 4th Quarter!

Even though we are only a few days into the New Year, I have received calls from clients with this same question: "Are you happy with your 2014 performance?" After a short pause I responded to all of them by saying absolutely YES and unequivocally NO? As a management team Bruce and I feel good about our process, decision making and the results all the way through the 3rd quarter at which time the domestic market shot up 5 to 10% in less than 30 days and the international markets lost 3 to 5% in the same time period. In addition most international currencies lost 11% in valuation against the strong dollar. As a result when you compare us to a domestic index we "suck". However, when we judge ourselves against the S&P Global BMI Index (represents both Domestic and International equities) we performed better than we should have for the risk we took. See Blue Graph (Global BMI) and black dotted line (ASF models) below



When you analyze the year, this is what we tactically did for you.

1) December 22nd 2013 - sold Domestic Large Cap Growth—took chips off the table with belief that domestic market was due for a correction

2) January 2014 – sold Domestic Small Cap—took chips off the table with belief that domestic market was due for a correction
   ***Result**: 1st downturn (10 days in length) ASF models lost -3.5% compared to indices of -5 to -6% worldwide

3) Stayed status quo to mid-year when our thoughts were, wow oil is at $107/barrel and it's hard to believe it will stop anytime soon. Oil starts dropping in price.
   ***Result:** 2nd downturn (24 days in length) ASF models lost -2.8% compared to indices of -4 to -6% worldwide

4) Stayed status quo after market bounced back quickly. Oil continued to fall and the dollar continued to strengthen
   ***Result:** 3rd down turn (28 days in length) ASF model lost -4.6% compared to worldwide indices of -8 to -11%

5) Took 6 to 8% from cash and moved into 2 funds when the market was down with knowledge that the U.S. job market was improving in earnest
   ***Result:** Diversified into an infrastructure fund to take advantage of the fact that our aging highways, bridges and water systems need upgrading and invested in the a global R.E. fund to take advantage of a potential inflation burst in this hard asset worldwide

6) Market bounced back once again before oil and geopolitical problems grow and markets slide again and we minimized risk in another downturn
   ***Result:** 4th downturn (13 days in length) ASF funds lose -3.80% compared to worldwide indices of -5% to 10%

Total Year Results
- Downturns lasting 75 days
- Total market value lost in a range of -18% to -28%
- ASF models lost -14.7% total in these four downturns

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 restaurant recommendation for this quarter is **Nye's Polonaise** in historic "Nordeast". If you want an "honest" drink and a generous food portion, surrounded by "regulars" and hipster décor that hasn't changed in 50 years, go to Nye's – before it's gone! The building dates back to the 1880's and was home to a "working man's" bar named Hefron's. Purchased in the late 1940's by Al Nye, a machine shop foreman, Al desired to keep the bar close to it blue collar roots. After 65 years of hosting sing-a-longs, the owners say it is time to "...quit while they are ahead." They will close some time in 2015, giving respect to their 35 loyal employees and their patrons. Every Friday & Saturday, you can choose between the old side featuring the World's Most Dangerous Polka Band or the piano bar side which sports Mike Maresh, the "Piano Man".

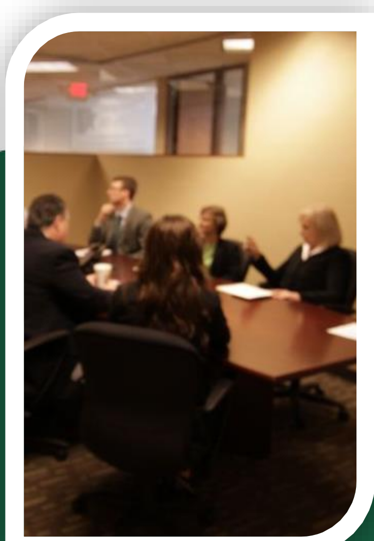
Swedish Meatballs
David Osterberg Family Recipe

1 lb. round steak
½ lb. lean pork
½ cup chopped onion
½ cup bread or cracker crumbs
½ cup dry milk
2 eggs
1 tsp. salt
1/8 tsp. pepper
½ cup hot water

Mix all ingredients by hand and chill one hour. With love and care roll quarter to half-dollar sized meatballs and fry in butter. Remove from pan and use the juice to make the gravy for your mashed potatoes.

Quote of the Quarter

"Kindness is the language the blind can see and the deaf can hear."   —Mark Twain



CONTACT US

3800 American Blvd. W.
Suite 1450
Minneapolis, MN 55431

Phone: 952.896.3820
Fax: 952.896.3819
Toll Free: 888.809.7901

asf@allstarfinancial.com
www.allstarfinancial.com

Meet Our Team

Bob Klefsaas, CFP®, AIF®, CFDS - President
Bruce Bonner, CFA – Portfolio Manager
Brian Senske, MA – COO, CCO
Kristie M. Brenner, AIF® - VP & Business Leader For Retirement Plans
David Osterberg, CPA – Tax Advisor
Carl Ermisch – Research Analyst & Paraplanner
Trisha Downing – President 1st Impressions & Executive Assistant
Corina McCurdy, Account Executive & Marketing
Jeff Bacon, Account Executive – Insurance Specialist
Bill Ristvedt, All Star Private Client Partner - Banks