ALL STAR FINANCIAL

Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

FIRST QUARTER 2016

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4 Uncertainties Keep Markets in Flux

2016 began with the stock market in a free fall. Major global markets declined 8-12% through mid-February. Though markets rebounded by the end of March, the 1st quarter demonstrated that we still have four major "uncertainties" that are looming over investors:

1. China's slowdown – the evidence persists that China's economy, which quickly grew to be the second largest in the world and is a major consumer of the world's resources, is cooling off. Efforts by China's government to drive currency trends and protect its investment markets did not have their intended result and led to a 16% drop in Chinese stocks by mid-February.

2.The oil "glut" – oil supply continues to outpace demand. Oil prices fell 25% to start the year as production levels in the U.S. and abroad remained strong. Stock values and oil prices appeared to be highly correlated during the quarter.

3. Central bank intervention – global economies have become increasingly reliant on central bank and monetary support. Efforts to spur more rapid economic growth through actions by the Federal Reserve and other banks have met with mixed results. Yet given government gridlock in the U.S. and fiscal constraints in Europe, global monetary policy is increasingly the only tool to stimulate economic growth.

4. Political question marks – it is a Presidential election year. Not only will a new administration take over, but the election season has proven to be one of the least conventional in recent times, adding to the uncertainty for investors.

BOB'S CORNER

WE ARE MOVING!

As most of you know, we just celebrated our 25th anniversary as ALL STAR FINANCIAL. Most of you probably do not realize, however, that all of the time has been spent in Northland Plaza (S.E. Corner of France & 494). When our lease came up this past January we wanted to stay on the 14th floor, but also needed to expand our space. We looked around the 494 strip and decided to stay and buildout on the **6th floor** of the Northland Plaza building. This is our fifth lease at Northland. We started on the 10th floor (1990 to 1994), expanded our space on the 10th from (1995 to 1999), moved down to the 7th floor (2000 to 2007), up to the 14th floor (2008 to 2015) and now down to the 6th floor for the next 8 years with 30% more space!

PLEASE come visit us in **Suite 620**. We are planning to have an Open House to celebrate our new space sometime this summer!

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.

THE ECONOMY

A global slowdown and diverging policies

Economic growth continued to stall across major global markets, driving a divergence in monetary policies. Japan's economy contracted by more than 1% in the 4th quarter of 2015. Europe continues to experience moderate growth, but now the region faces deflationary risks similar to those of Japan. The growth rate in China is reported at 6%, half of the rate they've experienced over the last decade. This slowdown is a concern for all economies, as China accounts for one-third of all growth around the world!

Central banks have been forced to remain diligent in their lowering of interest rates to keep economic growth on track. In the U.S., the Federal Reserve expected that several more interest rate hikes would follow its initial rate increase in December. However, the Fed is backing off that approach as the new forecast of Gross Domestic Product (GDP) growth is only 2.0% to 2.5% in 2016, which is little changed from 2015's level. While U.S. GDP grew at a 2.4% clip in 2015, growth in the 4th quarter was a disappointing 1.4% with similar expectations for the 1st quarter when numbers are announced at the end of April. The housing market has benefited from long-term rates remaining very low. Home sales, prices, and mortgage activity are all up from last year. In the meantime, inflation remains a non-factor, with the Consumer Price Index up just 1% while core inflation (minus food and energy) stands at 2.3%.

The modest pace of U.S. economic growth is disappointing given the favorable jobs data. The economy is adding an average of 228,000 jobs per month and the unemployment rate is down to 4.9%. Wage growth and personal income improved in the latest readings. Yet consumers remain cautious, with personal spending up just 3.0% while the personal savings rate now stands at 5.2%. Declining retail sales in January and February reflected this caution. Retail sales rose just 3.1% over the past year. Consumers have not been actively spending their "oil dividend" (from the dramatic cost savings at the gas pump) because of all the uncertainty around the world.

Corporations are displaying a similarly cautious approach. Business investment was down 2% in the 4th quarter. Industrial production is down 0.5% over the past year and capacity utilization stands at just 76%, slightly below what is considered full capacity of 78-80%.

Looking Ahead

The healthy jobs market for consumers is likely to keep the economy moving in the right direction. However, the caution demonstrated recently by businesses and consumers is likely to extend for much of the year.

We expect the Fed to raise interest rates at-most two additional times this year, and very likely less than that, particularly if inflation remains a non-issue. December's rate hike may even turn out to be a "one and done" scenario.

BOND MARKETS

The Fed's stance boosts bonds

In a surprising turn, long-term interest rates fell by 0.35% in the 1st quarter even after the Fed raised short-term rates in December. It reflected the risk aversion of investors who took money out of the stock market. Credit-related bond sectors sold off in conjunction with the stock market and oil price decline early in the year, then recovered in the second half of the quarter.

Even with weakness in the energy and materials sectors, defaults in the higher-risk corporate and high yield markets remained near historically low levels. Emerging Market (+5%), Global (+5.9%) and Corporate High Yield bonds (+3.5%) all generated positive returns for the quarter. Among government bond sectors, inflation protected (TIPS) bonds led the way, up 4.5%

Our funds that focus on emerging market debt, core bonds, floating rate securities and low duration bonds all performed well during the quarter. Our global bond fund was flat due to weakness in the dollar compared to the Euro and Yen.

Looking Ahead

With the Federal Reserve likely to hold the line on short-term interest rates for much of the year, it could help maintain relative stability in the bond markets.

Attractive values have been created in high-yield and emerging market bonds following the early-2016 selloff in these sectors. A risk in the high-yield sector is that defaults among energy issuers may rise if oil prices remain low. However, we anticipate oil prices to rise as the balance between oil production and demand reverts to normal, which should contribute to an improved environment for high yield bonds.

Domestic Stocks
A sell-off, then a recovery

Our defensive approach, reducing stock positions and holding more in cash (on 12/30/15, sold 10%-12% to cash) was beneficial during the first six weeks of 2016, as equity markets tumbled. It is a reminder that in investing, good defense often wins (see table on page 4 for more details).

As we've seen many times before, however, stocks quickly recouped the losses from January to mid-February and bounced all the way back by the end of the quarter. The Russell 3000 ended the quarter slightly positive (0.97%). Stocks with attractive dividends performed the best during the quarter. These stocks become more attractive during periods of volatility and are increasingly competitive from an income perspective given the low yields offered today in the bond market.

Large-cap stocks generally weathered the market's volatility better than small-cap stocks. The large-cap Russell 1000 Index was up 1.2% for the quarter while the small-cap Russell 2000 fell 1.5% during the period. Industrial, Consumer Staples and Materials stocks were among the best-performing sectors with gains in the 5% range during the quarter. Fears of increased regulation of pharmaceuticals took a toll on Healthcare stocks (-5%), and falling interest rates hampered Financial stocks (-4%).

Corporate earnings for stocks in the S&P 500 declined 4% in the 4th quarter, but this was primarily due to extreme weakness in the energy sector. Most other sectors actually showed modest earnings improvement, a trend that has carried over several quarters.

Looking Ahead

We anticipate more slow growth for U.S. stocks in the coming months. Corporate earnings are forecast to grow by just 2% for the rest of the year, with most of that coming late in 2016.

Consumer spending will continue to drive economic growth. Consumer, Healthcare, Financial and Technology sectors should all benefit from strong consumer spending in the coming quarters. A recovery in energy prices is also important to restore profitability to that sector. If it occurs, it could be a catalyst for a stronger market later in the year.

For now, we continue holding higher-than-normal cash positions because of the uncertainties that still face the market in the near term.

> "Value always wins, just give it time!"
> –*Bob Klefsaas*

International Stocks
Still lagging the U.S.

Foreign markets followed a similar path as U.S. stocks, with an early selloff followed by a late recovery. But the responses varied by country. Stocks in Japan and Europe did not respond positively to the negative interest rate policies of the European Central Bank and Bank of Japan. The European markets declined 3% for the quarter while Japan's lost 7%.

Stocks in China began to recover from the severe decline sustained in the early weeks of the year, but still finished the quarter down 5%. China continues to face challenges in its transition to a consumer and services-based economy. The big question mark for investors is how well China's government can guide this transition process.

Elsewhere in emerging markets, Brazil's market jumped 28% despite an ongoing recession, double-digit inflation and political turmoil. Led by Brazil, Latin American stocks registered an overall gain of 19%. Latin America's gains were the primary reason emerging markets finished the quarter in positive territory. Russian stocks also rallied 16% thanks to the recovery in oil prices, though Russia continues to deal with a recession and high inflation.

Looking Ahead

Central banks will likely maintain an aggressive approach to monetary policy throughout the year, trying to stimulate more significant economic growth. As a result, fiscal stimulus in China and Japan should boost prospects for Asian markets.

Oil prices will continue to be a challenge for major producers such as Brazil, Russia and Venezuela. Yet we remain generally positive about valuations of foreign stocks (in comparison to the domestic market). Overseas economies are in the earlier stages of the business cycle when compared to the U.S. The combination of fiscal stimulus, favorable stock market valuations and the business cycle favor a healthy allocation to foreign markets in 2016.

PERFORMANCE UPDATE

The First Quarter

All Star Portfolios	3 Yr Beta	3 Yr Alpha	5 Yr Beta	5 Yr Alpha	1st Qtr	1 Year	3 Years	5 Years
Income								
Balanced								
Cons Growth								
Growth								

Beta & Alpha (vs. Global BMI)

Market Index	1st Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	2.20	2.08	9.29	10.27
S&P 500	1.35	1.78	11.82	11.58
Russell 2000	-1.52	-9.76	6.84	7.20
S&P Mid Cap 400	3.78	-3.60	9.46	9.52
Russell 3000	0.97	-0.34	11.15	11.01
S&P Global BMI	**0.34**	**-3.88**	**6.13**	**5.74**
MSCI EAFE	-3.01	-8.27	2.23	2.29
MSCI Emerging Mkts	5.71	-12.03	-4.50	-4.13
NASDAQ Composite	-2.43	0.55	15.63	13.22
Barclays US High Yield Bond	3.35	-3.69	1.84	4.93
Barclays US Aggregate Bond	3.03	1.96	2.50	3.78
Barclays Global Aggregate Bond	5.90	4.57	0.87	1.81
JPM Emerging Bond Diversified	5.04	4.19	3.44	6.22
Barclays US Government Bond	3.12	2.37	2.11	3.42
Barclays US Credit Bond	3.92	0.93	2.86	5.00

*The above after-fee annualized total returns and betas represent All Star Financial models. Your portfolio's actual returns and betas may differ depending on your specific portfolio holdings.

SUMMARY & OVERVIEW

After experiencing a 3rd quarter downturn and a 4th quarter rally in 2015, the U.S. stock market compressed that mini-cycle into an even tighter one-quarter period to start out 2016. The uncertainties of China, Oil, Interest Rates, and Politics mentioned at the outset of this newsletter played a big part in the downturn that occurred in the early weeks of the year, and likely will continue to do so going forward.

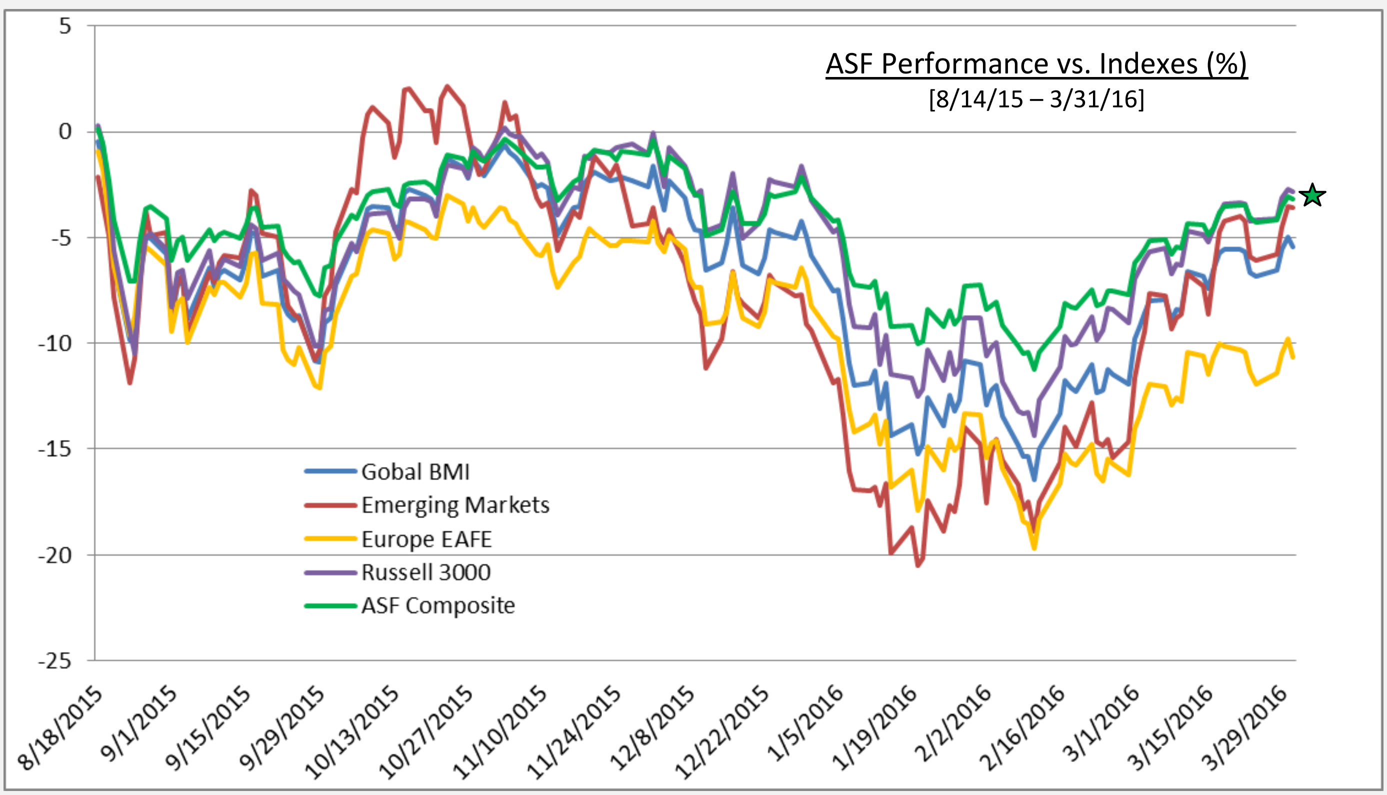
The slowing of China's red-hot economy remains a concern, though it is making some strides in its transition from a heavy reliance on exports to a consumer and service economy. The oil market rallied and then stabilized, providing some encouragement for the energy sector. Central bank actions remain a key focus, though it is not clear whether they can create the stimulus we've seen at other times in history. Finally, the presidential election promises to remain heated and will add to the uncertain environment that is likely to be present for the rest of 2016 and early 2017.

Defense Wins in Volatile Markets

Over the past 7 months we've experienced the most volatility since the financial crisis in 2007 & 2008. The CBOE Volatility Index (VIX) is referred to as the "fear index" and is our preferred measure of the market's expectation of volatility. Beginning on August 15, 2015, the VIX indicator spiked 212% in 7 days. Similarly, the index spiked 112% in the first 6 weeks of 2016. During these exceptional times of market volatility, defense wins. All Star's mantra of "It's not how much you make, it's what you keep" is demonstrated during these periods and we take that promise seriously.

	8/14/2015 – 2/12/2016	2/13/2016 – 3/31/2016	8/14/2015 – 3/31/2016
Global BMI (ACWI)	**-15.0%**	**9.1%**	**-5.5%**
Emerging (EEM)	**-17.5%**	**14.3%**	**-3.6%**
Europe (EAFE)	**-18.3%**	**7.1%**	**-10.7%**
Russell 3000 (^RUA)	**-12.7%**	**9.4%**	**-2.8%**
ASF Composite	**-9.2%**	**8.1%**	**-3.2%**

In the table above we compare the relevant equity indexes to the All Star Financial (ASF) Composite. During the turbulence of August 14th to February 12th, our positions protected our clients' assets more than the indexes on the downside, but were still able to recover similar to the indexes during the market acceleration between August 14th and the end of the quarter. The **performance** reflects our portfolios' ability to manage the volatility in the way we expect.



We believe the **path** of less volatility is important. As you can see above, All Star's model underperformed on the upside but outperformed on the downside. Ultimately, over an investor's life, less volatility results in a better compounding effect on your money which means investors will have more money in their bucket to spend!

Data Source: Y Charts / BlackDiamond Performance Reporting
Past performance is no guarantee of future results.

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

TAVERN ON FRANCE

As the state of Minnesota eagerly awaits the warmer weather that spring holds, it is time to ditch the annual hibernation rituals and start enjoying some patio dining experiences! Tavern on France in Edina offers a warm atmosphere, great service, wonderful food and a spacious patio, making it the ideal restaurant to dine at. At Tavern on France the menu includes something for everyone- appetizers, salads, pastas, sandwiches, flatbread pizzas, seafood, and steak. Even the most finicky eater will be satisfied with their meal selection. Imaginations will run wild for the adventurous-at-heart, as millions of combinations exist in Tavern on France's unique concept of build-your-own burgers, salads, and pizzas. Bon appetite!

Quote of the Quarter

"Price is what you pay. Value is what you get."

-Warren Buffet

Easy Grilled Pork Chops

Ingredients:

- ¼ cup honey
- 2 tablespoons vegetable oil
- 1 tablespoon apple cider vinegar
- 1 teaspoon ground cumin
- 1/2 teaspoon red pepper flakes
- 8 (1/2 inch) bone in pork chops (3 oz. each)
- Salt and freshly ground black pepper

Directions:

- In a small bowl, prepare marinade by whisking together the honey, oil, vinegar, cumin and red pepper flakes.
- Sprinkle both sides of the pork chops with salt and pepper. Place in a re-sealable plastic bag with the marinade. Let set for 1 hour.
- Heat a grill or grill pan over medium heat. Remove the pork, lightly sprinkle with salt and pepper and place on grill.
- Cook until pork chop releases from grill, about 5 minutes. Flip and cook other side for another 5 minutes, or until done.
- Serve pork chops with a green salad and boiled red potatoes.

Serves 4 People

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