



2009 – 4TH QUARTER REVIEW AND PREVIEW

2009: FEAR GIVES WAY TO STABILIZATION, THEN HOPEFULNESS FOR THE RECOVERY



BOB'S CORNER

As we close the door on the first 10 years of this century, we can truly say we lived through history. Some good, but most will be considered bad. We continue to preach that **greed and fear** are the two worst emotions when trying to make sound decisions. Greed says to buy when everything is high. Fear forces people to sell when everything is low. We believe, and have executed for you over the last ten years, in the exact opposite approach. Buying low and selling high!

This past quarter we lost ground to the market. We took profits in September and went to cash while the market continued to climb. Patience will show there are better bargains ahead because we believe the domestic market will pull back to a more reasonable valuation. Remember, taking chips off the table and putting them in your pocket assures you of a gain.

We want to thank you for your continued stream of great referrals and look forward to servicing all of your needs in a less volatile 2010!

MARKET OVERVIEW

Few could argue that 2009 turned out better than expected for investors. Fear was the dominant theme at the outset of the year as the financial and banking sectors were teetering near collapse, requiring serious intervention by the Federal Reserve and U.S. Treasury to restore order in a damaged credit system. The U.S. economy was mired in its deepest recession in decades and the downturn spread globally. Problems persisted in the housing market and foreclosure activity ramped up. In a tight credit market, many businesses were forced to lay off workers.

Against this backdrop, it was no surprise the year began with the stock market extending its freefall that began in October, 2007. The bear market continued into early March, but that's when investors started turning an eye to the future and expecting the environment would begin to improve. The difference from a year ago to today is striking!

The nation's Gross Domestic Product (GDP) bottomed at -5.4% in the 1st quarter, then broke into positive territory in the 3rd quarter of 2009, growing by +2.2%. After starting the year in a hole, the S&P 500 closed 2009 with a gain of +26.5%. Market volatility declined dramatically throughout the year. Corporate bond spreads, a measure of business credit availability, fell by more than half, which was another encouraging sign. Leading economic indicators, which a year ago foretold the economy falling off a cliff, began to point to better growth ahead. The most encouraging sign of improvement may have occurred in the job market. A year ago, the loss of 700,000 jobs a month was commonplace. In November 2009, the drop was limited to 11,000 and temp hiring trends point to more improvement ahead.

Despite all the challenges of this financial and economic crisis, the U.S. economy remains one of the most dynamic and safest in the world. Much of the credit for overcoming the extremely negative environment has gone to Federal Reserve Chairman Ben Bernanke. This "student of the Great Depression" took aggressive action to help restore business and mortgage credit, reduce interest rates and repair the banking system. While many have criticized the degree of government "bailouts," the economic rebound and recent repayments of the government's Troubled Asset Relief Program (TARP) funds to the U.S. Treasury have silenced many critics.

The next hurdle to overcome in keeping the stock market recovery on track is for companies to generate true earnings growth. Trends developing in the final months of 2009 seem to point to positive developments on this front. We think long-term investors will be rewarded with modest but steady gains in the coming year.

ECONOMY

THE 4TH QUARTER

The U.S. economy turned a corner in the 3rd quarter moving in a positive direction for the first time in more than a year. Fourth quarter GDP numbers could come in at a comparable or even stronger level than the 2.2% jump in the previous quarter. Unemployment, however, remains stubbornly high reaching a peak of 10.2% in October. The jobs market is typically one of the last to respond to a recovery, and favorable signs point to the potential for at least modest improvements.

Growth was visible in both the manufacturing and service sectors in the 4th quarter. The weaker dollar boosted manufacturing activity by making U.S. exports more competitive in overseas markets. The service sector is seeing a slight pickup in activity in the areas of health care, financial services and retail.



LOOKING AHEAD

We anticipate continued but modest economic growth in 2010, of about 2% to 3%. The job market will likely remain weak, but slow improvement is anticipated with the unemployment rate ending 2010 in the 8% to 10% range. The housing market will continue to face challenges and the government will keep promoting mortgage modification programs to avoid more foreclosures. The combination of high unemployment and a weak housing market will likely limit growth in consumer spending as the economy recovers.

The Federal Reserve seems committed to keeping interest rates low for the foreseeable future. In the meantime, banking and financial reform is likely to take center stage in Congress once the health care package is finalized.

BOND MARKET

THE 4TH QUARTER

Bond and credit markets enjoyed solid but moderate returns during the 4th quarter. The BarCap Aggregate Bond Index gained +0.2% during the quarter. Credit-related sectors provided the most highlights. High-yield bond funds led all sectors with a gain of +6.2% during the quarter. Multi-sector bond funds +3.1%, Emerging Market bonds +1.5%, and Treasury-inflation protected (TIPS) bonds +1.8% all benefitted from an improved credit environment. World Bond funds were flat due to a late-year rally by the dollar that offset gains in most foreign denominated bonds.

Government bonds lagged the rest of the market as increasing yields on 10-year Treasury notes resulted in modest losses. The BarCap Government Bond Index fell -1.0% for the quarter while long-term government bonds declined -5.1%.

LOOKING AHEAD

We expect the rally in the credit sector to wind down in 2010, due to the fact that spreads on high-yield and investment grade corporate bonds are again near their historical averages. Corporate bond yields may remain attractive though, relative to other sectors of the bond market, as default activity is likely to fall as the economy improves.

Although 10-year treasury rates rose toward the end of 2009, the consensus is that short-term rates will remain low through much of the coming year. There is a risk that surprising strength in the economy and corporate earnings could result in higher interest rates by mid-year. A prudent approach for 2010 is to maintain intermediate and shorter durations in areas where interest rate credit spreads remain attractive. Global diversification is also recommended, as the dollar is likely to remain weak overall (though it may rally during short spans as it did late in 2009).

DOMESTIC STOCK MARKET

THE 4TH QUARTER

U.S. stocks enjoyed another solid quarter of gains capping a strong year. There has been encouraging news on the economic front as well as better than expected corporate earnings enticed investors back into stocks. The broad Russell 3000 Index gained +5.9% during the final quarter of 2009. Large-cap stocks were most in favor with the Russell 1000 returning +6.1%. The Russell Midcap Index was up +5.9% while the small-cap Russell 2000 gained just +3.9%. Growth stocks regained the edge over value stocks. The Russell Growth Index rose +7.7% while the Russell Value Index lagged with a return of +4.2% for the quarter.

Technology stocks led the market with a gain of +10.1% as low debt levels, new products, a weak dollar and increased business spending boosted prospects for companies in that sector. Health Care stocks rose +8.8% benefiting from low valuations and more certainty around the regulatory environment. Consumer Discretionary stocks returned +8.0%, rebounding with expectations of improved consumer sentiment.

The only industry to lose ground in the 4th quarter was the financial sector, with a drop of -2.2%. It appears the rebound rally in banking and financial stocks that occurred earlier in the year was slightly premature.

For the market as a whole, most companies have managed to improve earnings though the bigger issue is whether they can generate top line revenue growth going forward. We believe there are reasons for optimism on that front. While stock valuations remain attractive, there are far fewer bargains than was the case in March, when the 2009 rally began.



Performance Update

Market Index	4th Qtr	1 Year	2 Years	3 Years	5 Years
DJ Ind Average	8.09	22.60	-8.58	-3.11	1.99
S& P 500	6.01	26.50	-10.75	-5.64	0.40
Russell 2000	3.87	27.17	-8.24	-6.07	0.51
S&P Mid-Cap 400	5.56	37.38	-6.40	-1.83	3.27
Russell 3000	5.90	28.34	-10.30	-5.42	0.76
MSCI EAFE	2.18	31.78	-13.62	-6.04	3.54
MSCI Em Mrkt USD	8.55	78.51	-8.73	5.11	15.51
NASDAQ Comp	6.91	43.89	-7.50	-2.06	0.85
Barclays High-Yield	6.19	58.21	8.09	5.98	6.46
Barclays Agg Bond	0.20	5.93	5.58	6.04	4.97
Barclays Credit Index	1.61	15.93	6.17	5.98	4.76
Barclays Gov Bond	-1.00	-2.20	4.84	6.10	4.87
Barclays Corp	1.03	16.04	6.05	5.74	4.67

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

LOOKING AHEAD

Given the strong rebound that has already occurred in the U.S. stock market, expectations for 2010 should be modest. A frugal consumer, the weak housing market and a still-fragile financial system are all reasons for tempered enthusiasm. However, we continue to believe that Growth stocks, particularly Technology and Health Care, will lead the market in the opening months of the year, as both sectors are well positioned to benefit from trends in the marketplace.

INTERNATIONAL MARKETS

THE 4TH QUARTER

World markets rallied in line with domestic stocks with Emerging Markets showing particular strength. Emerging Market stocks gained 8.6% in the 4th quarter, more than triple the +2.2% rise for Developed Market stocks. Latin America was a leading region notching a +12.4% gain on the strength of a rebound in energy prices. This particularly benefited Brazil which is the region's strongest economy. China's economy had a solid 4th quarter helping to boost Pacific Asia ex-Japan stock funds to rise +6.6%.

Economic news out of both Europe and Japan was generally positive, though their results differed. In Europe, stocks rose +3.2%, while in Japan stocks declined -2.8%. Major central banks in both regions have committed to leaving their stimulus policies in place until the global recovery is on more solid ground.

LOOKING AHEAD

China's role as the top manufacturer in the world and as a major investor in government securities in the U.S. and other sovereign nations continues. The next stage in China's growth should be the emergence of its middle class. This is also occurring in other fast-growing developing markets such as India and Brazil. These are among the reasons that Emerging Market stocks offer attractive potential going forward. Even though Europe and Japan offer attractive dividends, we believe opportunities are more limited because of the aging demographics. Risks in global markets could ease in 2010, particularly if the U.S. can wind down its involvement in Iraq and Afghanistan.

SUMMARY

While stock market returns for the last decade were flat to slightly negative, a reflection of the "dot-com" bust and the financial crisis, the end of 2009 gives hope to long-term investors. By many measures, it appears that an extended and sturdier expansion has begun.

It is vital for investors to maintain a diversified approach. This should include both stocks and bonds, but also should reflect the fact the U.S. is no longer the dominant engine of economic growth around the world. A global presence should be part of your portfolio to take advantage of growth potential overseas and as a way to insulate against a weaker dollar.

Market valuations are less attractive than a year ago, active management will become increasingly important going forward. We continue to search for "best in class" asset managers, "All Stars" and new investment processes that can create opportunities for you.

Happy New Year!

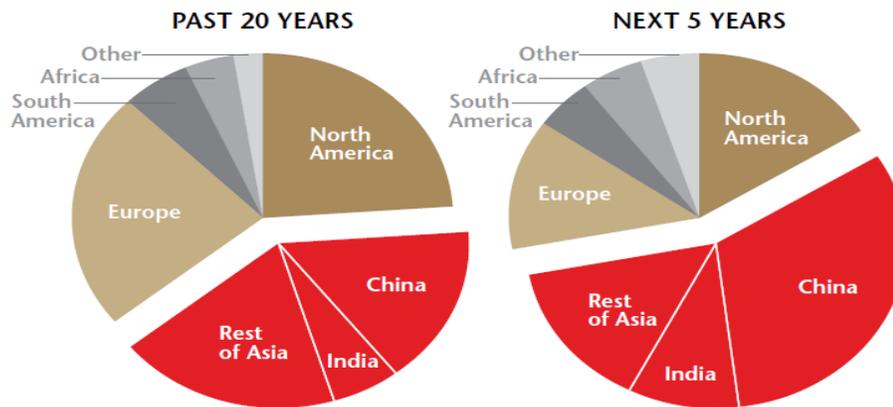


Going Global for the Next Decade

As we noted in our summary, the United States is no longer the sole dominant growth engine in the world. Over the past decade, the United States' economic position in the world has gradually subsided as countries such as China, India and Brazil have increased their stake in the global marketplace. The recent worldwide recession has led many governments to implement fiscal and monetary stimulus measures. When comparing the debt-to-GDP ratio of the 20 largest emerging markets against the top 20 developed nations, the emerging market nations have less than half the debt as the developed nations.

Goldman Sachs reports that since 2007 the BRIC nations (Brazil, Russia, India, and China) have accounted for 45% of global growth. This number is over three times that of what the BRIC nations had accounted for in the previous decade. Helping spur much of the economic growth in these emerging markets are demographical advantages that many of these countries have relative to the United States, Western Europe, and Japan. Brazil, India and Mexico all have a median age under 29, while the United States, United Kingdom, and Japan all have a median age above 36. This demographical advantage gives credence to the growth patterns that these emerging countries have experienced in the past decade.

The Changing Patterns of Global GDP Growth



*Data for charts provided by the International Monetary Fund

According to forecasts by the International Monetary Fund, China is expected to become the largest single contributor to global economic growth over the next five years while the collective continent of Asia is projected to account for more than 50% of the world's growth. The United States and Europe produced over half of the world's economic growth over the previous 20 years, so this forecast is quite a startling revelation. If China does indeed become the prevailing growth source on the planet, then we can also expect it to command a larger presence in the global economy.

Currently, the United States only accounts for 42% of the total world market capitalization. By the time 2020 arrives it is all but assured that the U.S. will account for even less. Over the past few years, we have been increasing the foreign percentage of our overall equity allocation because of these economic and demographical trends that have been occurring in foreign markets. These trends are ones that will not subside in the next decade as many of these once emerging economies transform into the new growth engines that will lead global expansion for the next generation.

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