



2007 – 4TH QUARTER REVIEW AND PREVIEW



ECONOMIC UNCERTAINTY LEADS TO VOLATILE QUARTER, INCREASED RISK

MARKET OVERVIEW

The stock market took a step backward in the 4th quarter as a combination of staggering losses in the financial sector, weakening economic data and flagging corporate profits weighed on investor enthusiasm. Volatility returned to the markets in full force, with significant ups-and-downs becoming the norm for equity investors during the closing months of 2007. Investors perceived that signs of a struggling economy were creating more risk, and they have reacted accordingly.

Credit markets faced significant challenges as the fallout from the subprime mortgage crisis continued to spread. Investors were focused on a flight to quality, virtually avoiding bonds with any type of credit risk. Instead, the relative safe haven of U.S. Treasury securities were favored by most investors, and yields dropped dramatically during the quarter. Another significant concern was the availability of money with banks tightening their lending practices. The Federal Reserve was very active during the quarter, reducing short-term interest rates two times and injecting billions of dollars in short-term funds into the market in an attempt to ease the credit crunch.

Stock investors were on a yo-yo ride as selling on bad news was often followed up by bargain hunter buying sprees, roiling the markets throughout the period. Given the broad range of economic concerns heading into the New Year, it is likely that market volatility will remain high in early 2008.

ECONOMY

THE 4TH QUARTER

The latest report on 3rd quarter economic growth, showed a surprisingly strong rate of 4.9%, accelerating from the 3.8% level achieved in the 2nd quarter. The consensus is far different when 4th quarter numbers are first reported in January. A spate of dour economic reports has led to a consensus expectation of a 1.0% annualized growth rate in the final quarter of 2007.

One sign of weakness was a slowdown in the job market. Unemployment edged up to 4.7% while job growth averaged just 90,000 per month, about 25% below the average earlier in 2007. In addition to unemployment claims rising, factory and durable goods orders slowed, contributing to a weaker job market.

Housing continued to be the weakest link in the economy. New home sales declined 34% with residential construction off 25% from the previous year's numbers. Homeowners were dealing with the shock of falling housing prices, which declined 7% nationally during the last quarter, a trend that may well continue into 2008.

Investors found some relief from a boom in exports which rose 19% in the 3rd quarter, much of that due to continued dollar weakness. With the dollar losing ground against most overseas currencies, inflationary pressures on imported goods, most notably oil, raised the chance of a return to higher inflation. The latest numbers on the Consumer Price Index showed an annual jump of 4.3%, the highest in years.

Another positive sign for the economy was the steadfast determination of consumers to continue spending regardless of mortgage foreclosures and credit card defaults. Consumer spending rose 5.3%.



BOB'S CORNER

“IT’S NOT HOW MUCH YOU MAKE, IT’S HOW MUCH YOU KEEP!”

I hate to say this, but we love volatility. We had a great year as two of our portfolios flat out beat the market, as measured by the Russell 3000 which was up 5.14%. The All Star conservative growth and growth portfolios were up +6.56 and +8.06 respectively. While reviewing on a risk adjusted basis, all four of our portfolios outperformed:

<u>Portfolios</u>	<u>Alpha</u>
Income	+1.08
Balanced	+1.73
Cons Growth	+2.60
Growth	+3.54

After four to five really good years in the market, look for 2008 to be a period of continued volatility and like the fourth quarter, perhaps negative returns. The next step for us will be to strategically start to put some of your assets back to work. We love bargain shopping and that could happen before year end '08.

Welcome Kris Collins, CPA! We are excited to add Kris to our team and look forward to helping all of our clients with tax consultation and tax preparation.



The Federal Reserve enjoyed limited success in trying to combat the credit crunch. It has cut the Fed Funds rate by 1% since September 18. As the New Year begins, the Fed is facing a balancing act between trying to keep the economy out of a recession and avoiding a resurgence of inflation. The Fed, with the support of the European Central Bank, was busy auctioning short-term funds to banks during the quarter. The goal is to assure that banks have adequate liquidity and maintain inter-bank lending while restoring confidence to the credit markets. This effort will likely need to continue at least in the near term to help prevent any deepening of the credit crunch.

LOOKING AHEAD

Signs of economic weakness are apparent in data published by the Economic Cycle Research Institute (ECRI). Its weekly index, designed to forecast the economy six months out, currently shows the lowest rate of growth since November 2002, when the economy was just beginning to recover from the recession that occurred in late 2001. The index has been in negative territory for 16 consecutive weeks through the end of the year, and ended 2007 declining for ten consecutive weeks.

The consensus of economists is that there is a 50% chance of a “mild” recession in 2008, with predictions of annual GDP growth coming in at an anemic +1.2%. This is likely to keep corporate profits in single digits, with a risk of going even lower if the banking sector is forced to write off more subprime losses. Any recovery in housing appears to be at least a year off, adding to the recession risk.

Given the economy’s weakness, the Fed is likely to have little choice but to keep interest rates low. That will continue to pressure the dollar and do little to quell inflation fears.

BOND MARKET

THE 4TH QUARTER

Rating agencies were busy in the closing months of 2007 downgrading mortgage-related bonds, asset-backed securities, collateralized debt obligations (CDOs) and virtually any bond that potentially had exposure to subprime mortgages. Bonds with any degree of credit risk, including high yield securities, bank loan funds and ultra-short bonds returned -0.1% to -1.6% during the quarter.

The “flight-to-quality” mentality of the market benefited long-term government bonds and Treasury inflation-protected securities (TIPS), rising 5.8% and 3.9% respectively. Short-term government bonds, world bonds and emerging market bonds generated more modest gains of 1.4% to 1.9%.

For the year, bonds as measured by the Lehman Aggregate Bond Index gained 6.9%. Long-term government bonds led the pack with a return of 10%, while TIPS rose 9.8%. Lagging the field were high-yield bonds. In the municipal sector, high-yield securities dropped -3.3%, while taxable high-yield bonds managed a modest 1.5% gain.

LOOKING AHEAD

Despite the tightrope the Fed is walking between a weaker economy and higher inflation, we expect additional interest rate cuts, with a 90% chance of it happening at its next meeting on January 30. The Fed will more than likely remain in an easing mode at least until mid-year.

The bond market could see a shift in sector performance as Treasury bonds may have difficulty generating returns to match their lofty levels in 2007. Corporate and emerging market bonds may offer select value opportunities. Municipal bonds are attractively priced in the current environment and global bonds may continue to benefit from dollar weakness in 2008.

DOMESTIC STOCK MARKET

THE 4TH QUARTER

Equity investors experienced a roller-coaster ride that ended with stocks losing -3.34% as measured by the broad Russell 3000 Index. From early October to late November, stocks corrected a full 10% before recovering some lost ground in the last few weeks of the year. The low point occurred as financial stocks suffered amid reports of billions of dollars of losses and asset write-offs connected to the subprime mess.

Large-cap stocks were down -3.2%, still performing better than small-cap stocks, which declined -4.6%. Growth stocks, with a return of -0.9, held up better than value stocks, at -5.9, as weakness in the financial sector hit the value style more directly. Regardless of market capitalization (size) or style, all broad indexes were in negative territory in the 4th quarter.

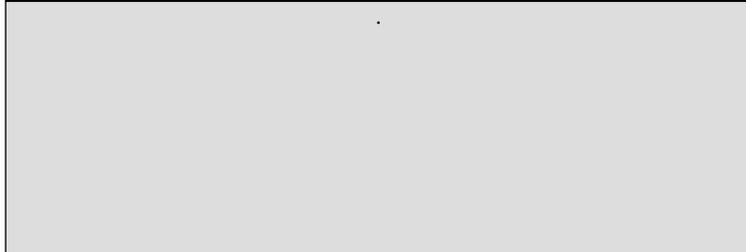
Defensive industries fared the best during the period. Utilities gained 6.0% while energy stocks rose 4.4% and consumer staples were up 3.0%. The hardest hit sectors included financial stocks, dropping a dramatic -14.8% and consumer discretionary stocks which lost -10.7%.

For 2007, large company stocks outpaced smaller issues. The large-cap Russell 1000 gained 5.8% while the small-cap Russell 2000 declined -1.6%. The Russell 3000 Growth Index gained 11.4% while the Russell 3000 Value Index declined -1.0%.



Performance Update

Annualized Returns



Market Index	4thQtr	YTD	1-Year	2-Year	3-Year
DJ Ind. Average	-4.01	8.83	8.83	13.8	9.7
S&P 500	-3.36	5.48	5.48	10.52	8.61
Russell 2000	-4.58	-1.57	-1.57	7.94	6.80
S&P Mid-Cap 400	-2.73	7.98	7.98	9.14	10.27
Russell 3000	-3.34	5.14	5.14	10.30	8.89
MSCIEAFE	-2.04	8.62	8.62	15.81	14.14
NASDAQ Comp.	-1.82	9.81	9.81	9.67	6.83
Lehman High-Yield	-1.3	1.87	1.87	6.74	5.33
Lehman Agg. Bond	3.0	6.97	6.97	5.64	4.56
Lehman Credit Idx.	2.19	5.11	5.11	4.68	3.77
Lehman Gov. Bond	3.73	8.66	8.66	6.04	4.90

LOOKING AHEAD

Corporate profits will be under pressure at the start of 2008, with the biggest question marks surrounding the financial sector. Another quarter of earnings reports may need to be assessed to determine if troubled financial companies have cleared their books and are back on track. We have sold our equity holdings with significant financial exposure.

In the current environment, specific sectors appear to be well positioned. Trends such as innovation, a weaker dollar and consumer demand for necessities should benefit health care, technology, industrial and consumer staple stocks. The environment should continue to benefit large-cap and growth stocks. Long-term investors can take comfort in the fact that while markets are volatile, stock valuations appear favorable. If the Fed succeeds in steering the economy away from a recession, micro-caps and small-cap stocks should benefit as the environment improves.

INTERNATIONAL MARKETS

THE 4TH QUARTER

International stocks fared better than domestic issues in the quarter but still declined -1.14% on a global basis. However, returns varied widely and there were pockets of strong growth. Emerging markets again led the way, gaining 5.0% as a whole.

Results were strongest in European emerging markets, with a gain of 12.3%. In addition, India rose 9.0% and Latin America returned 5.4%. Asian markets struggled in the face of a slowdown in the U.S. economy. Asian Pacific stocks declined -4.2%. Japan lost -6.0% and the Chinese market cooled, losing -3.8%. Germany's market capped a strong year with a 4.3% gain in the 4th quarter, topping the Euro zone average return of 1.0%. A weak housing market and subprime issues dogged the United Kingdom, which lost -3.0% in the quarter.

Global markets shined in 2007, rising 13.8% for the year. Emerging markets were up 38.8%, paced by India's 78.9% gain, Brazil's return of 74.6% and China's increase of 66.9%. Eurozone stocks rose 15.6% for the year.

LOOKING AHEAD

A slower rate of growth is likely to be an issue for many global markets in 2008. Emerging markets continue to look attractive, but may be hard pressed to match the level of returns they've achieved in recent years. China and India continue to grow at rapid rates, but both nations appear to be managing the growth relatively effectively in an effort to thwart a major jump in inflation. European stocks may also face some challenges, but still appear to offer more attractive value than U.S. stocks. Japan's market continues to struggle, particularly with exports being hurt by the weak dollar at the same time that consumer spending is modest.

Foreign stocks are poised to again outperform the U.S. market in 2008. This year may be a test of the theory that the world economy has "decoupled" from the U.S. economy, and can maintain growth even if the U.S. faces a recession. Time will tell if the strength of economies in China, India, Russia, Brazil and Europe can be sustained in the face of a struggling U.S. economy.

SUMMARY

The bull market that began in 2003 is showing signs of wear. Corporate profits, due in large part to huge losses in the financial sector, have turned negative. The housing sector, the main culprit in the economy's current struggle, is still trying to find a bottom. The dollar remains under pressure, and inflation has become a real threat.

We continued a tactically defensive position in the 4th quarter, reducing equity exposure to financial stocks and trimming some fully valued holdings. We plan to add new funds this year to reflect the changing investment landscape and replace holdings that have not met expectations.

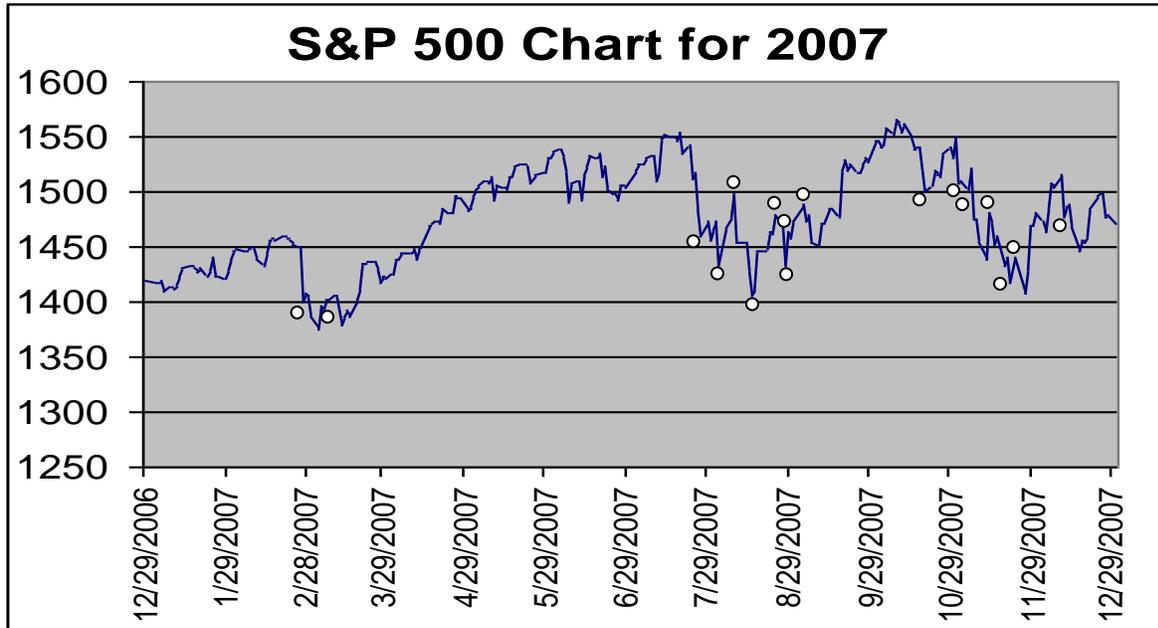
We hope you found the performance of All Star Portfolios satisfactory in a very challenging environment in 2007. With market volatility a big issue, we remain committed to identifying investment opportunities that help enhance performance, reduce risk, decrease portfolio expenses, and ultimately help you achieve your long-term goals.



VOLATILITY

The ups and downs of domestic stocks

Over the last few years this bull market has experienced a period of low volatility, and relatively steady returns. But during the 4th quarter, and for all of 2007, volatility increased dramatically as shown by the chart below:



During 2004 and 2005 the S&P 500 Index did not experience any daily moves of 2% or more. During 2006, only two days experienced 2% moves-but during 2007 we had 17 days where the market moved up or down more than 2%!

It feels like the markets are changing but we are really just getting back to historically “normal” levels of volatility. What is the best way to cope with these up and down swings in the market? Diversification and asset allocation: By adding other assets to your portfolio that tend to move independently of the stock market, you can minimize the day to day fluctuations in the market. These diversifying assets can include bonds, foreign stocks, real estate, commodities and an expanding universe of alternative asset classes.

DIVERSIFICATION + LONG TIME HORIZON = THE CURE FOR VOLATILITY

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