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Weekly Market Wrap April 20, 2009

Review - Week Ending 04/17/2009

Stocks racked up their sixth week of gains as initial earnings reports have been slightly better than expected. This week brings a full week of earnings and slim economic calendar. Earnings reports will remain the market focus until the next FOMC meeting pronouncement, which is due on April 29th.

Commentary/Highlights

- **The Dow has rallied 23% over the last six weeks**, the largest six-week rally since 1938 and the longest rally since May 2007. Early signs of bottoming and improvement in the economy sparked the rally and lots of cash moving off the sidelines has provided the fuel.
- **Banking and financial stocks have led the recent rally.** Bank earnings have been much better than the dire forecasts going into the quarter. However, they may not be as strong as they appear on the surface. Trading profits, low borrowing costs, and cost cutting helped earnings, but banks are still absorbing and reserving for losses, and several banks had one-time accounting gains.
- **Earnings declines may be bottoming but they are coming off a low-bottom.** Fortune reports that from the all-time high of \$785 billion in 2006, Fortune 500 earnings slipped to a robust, even bubble-level, \$645 billion in 2007. **The real damage came last year, when profits plunged to \$98.9 billion for 2008, a decline of 87% from 2006.**
- **Commercial real estate problems are bubbling to the surface.** Last week General Growth Properties, the 2nd largest mall operator, filed the largest real estate Chapter 11 bankruptcy in history. Commercial vacancies remain high in most regions, and will lead to more loan losses down the road, offsetting some of the recent improvement in residential markets.
- **High Frequency Economics** is predicting that growth in the Euro nations will fall steadily until 2011. Japan's GDP may contract another 10-12% for the 1st quarter and forecasts are still falling. It is more apparent that the global recovery will be led by **China and the U.S., where policy responses have been the swiftest and largest.**
- **The corporate bond market is showing more signs of life.** Credit spreads have narrowed and corporations are starting to take advantage of improving markets. High yield bond issuance totaled \$4 billion last week, the largest week since June 2008. The initial public offering (IPO) market could be next, with three successful IPO's launched so far in April.
- **Dividend cuts.** The 1st quarter was rough for dividends which historically provide 40% of the long-term returns for stocks. A record 367 of S&P 500 companies cut or eliminated dividends. Overall dividend payments fell 15%, the biggest drop since 1958.
- **Industrial and Commercial Bank of China**, the world's largest lender by market capitalization, is now the biggest by deposits as well, according to the Financial Times.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	+0.39%	+0.27%	+0.38%
Lehman High Yield	+4.35%	+7.34%	+13.76%
Dow Jones Industrial	+0.67%	+6.98%	-6.32%
S&P 500 Index	+1.59%	+9.16%	-2.77%
Russell 3000	+1.70%	+9.78%	-2.08%
MSCI EAFE Index	+3.06%	+9.69%	-6.38%
MSCI EAFE Small Cap	+4.30%	+12.22%	+1.59%
NASDAQ Composite	+1.24%	+9.45%	+6.09%
Russell 2000	+2.41%	+13.46%	-3.51%