



# ALL STAR FINANCIAL

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## Weekly Market Wrap April 6, 2009

### Review - Week Ending 04/01/2009

Stocks kept the rally intact last week, though we expect a holiday shortened week and pending earnings reports over the next few weeks to put some caution back into the market. Plenty of improving signs in the economy, but we still have the bank "stress tests" to get over, the GM situation to resolve, and the 1<sup>st</sup> quarter earnings are expected to be very weak.

### Commentary/Highlights

- **Economy-The Second Derivative:** Analysts and economists focus on data trends in the economy, especially "signs of stabilization" or "improvement in the second derivative". These represent turning points in the economy, where declines are not as steep, things stop getting worse, and some parts of the economy start getting better. **Signs of improvement are showing up with increasing frequency. Mortgage applications, smaller lay-offs, and increases in pending homes sales were all positive signs from last week.**
- **1st Quarter Earnings Will Be Ugly:** Operating earnings are expected to decline 23% and net income could fall 35%, as the slow economy, lay-off charges, and financial and asset write-downs will all be in play this quarter for corporate earnings. All ten industry sectors are expected to show year/year declines in earnings, with Health Care and Utilities the only sectors expecting single digit declines.
- **Fragile Savings and Slower Growth:** The March Wall Street Journal survey of economists finds that 94% of economists believe this recession will mark a permanent change in consumer behavior and result in higher savings rate. The change will mean **consumer spending will grow only 2%-2.5% in coming years**, compared to the 3.5% growth during the last decade.
- **Consumer Credit Trends:** Consumer credit trends tend to peak in the 3rd year of a credit cycle. Housing prices began their fall in 2006, so **expect foreclosures and credit delinquencies to continue to increase through 2009**, especially in light of the soft employment market.
- **G20 Summit:** The G20 Summit was viewed as a success, with nations **pledging \$1 trillion to the IMF** to support nations weakened by the global economy. Pledges were made for regulatory and banking reform and another summit will be held later in the year to monitor global progress
- **Mark to Market Lite:** The FAS 157 "Mark to Market" rule was blamed for creating unnecessary and excessive write-downs for many banks and the financial industry was generally lobbying for some relief. Last week the Financial Accounting Standards Board relaxed the rule giving companies discretion to mark "an orderly liquidation value".
- **Unemployment** situation is reaching a critical stage. Payroll losses totaled 663,000 in March, and January's job losses were revised to 741,000, the worst month of job loss in sixty years. **Unemployment has reached 8.5%**, and is expected to rise for the balance of the year. Economists worry that over 700,000 could begin to exhaust extended unemployment benefits later in the year.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Lehman Aggregate Bond	-0.18%	-0.41%	-0.29%
Lehman High Yield	+0.87%	+1.30%	+7.36%
Dow Jones Industrial	+3.11%	+5.34%	-7.75%
S&P 500 Index	+3.32%	+5.64%	-5.91%
Russell 3000	+3.71%	+5.99%	-5.46%
MSCI EAFE Index	+4.04%	+6.74%	-8.89%
MSCI EAFE Small Cap	+4.40%	+7.10%	-3.04%
NASDAQ Composite	+4.96%	+6.10%	+2.84%
Russell 2000	+6.35%	+7.91%	-8.23%