QUARTERLY
REVIEW & PREVIEW

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Is the "Trump Card" Enough to Keep Markets Moving Forward?

Equity markets in the U.S. and across the globe continued an upward trajectory in the 1st quarter of 2017. The bull market for U.S. stocks celebrated its 8th birthday on March 9th with signs pointing to more of the same. A combination of positive economic data and optimism about pro-business policy changes from the new Trump Administration has helped markets maintain momentum.

President Trump has sought to push through an ambitious agenda in the early stages of his term. The first significant legislative test, to "repeal and replace" the Affordable Care Act, failed to be accomplished in the initial attempt. Republicans could not find common ground on how to approach health care policy. The "Trump Card" that has helped fuel a 12%+ market rally since November's election faces its next challenge as Republicans seek to address tax reform. While investors anticipate positive news, it will be an uphill battle. Policymakers must find agreement on proposals that are revenue neutral and that may include the controversial Border Adjustment Tax. Further complicating matters is a looming April 28th deadline to avoid a potential government shutdown over basic funding of day-to-day operations.

Also anticipated is a massive infrastructure spending plan that President Trump has indicated he will recommend to Congress. Investors are excited about the potential impact this could have on economic growth, commodity prices and corporate earnings.

The opening months of 2017 also saw significant activity in monetary policy. The Federal Reserve (the Fed) raised the Federal Funds rate by 0.25% in March and has made clear that at least two more rate hikes could occur in 2017. While previous Fed rate increases helped strengthen the dollar, the greenback lost ground compared to other currencies during the quarter.

The best performance over the 1st quarter occurred in international markets. Developed Market indexes were up over 8% while Emerging Market stocks generated gains of 11.5%. Favorable valuations, economic growth and beneficial currency trends contributed to returns in international equities.

BOB'S CORNER

In last quarter's newsletter we talked about the domestic market "borrowing returns from the future" as the "Trump effect" boosted U.S. equities based on anticipated future economic growth. Here is our updated view of the impact of the "Trump effect":

Tax Reform: Just beginning to develop! The market is hopeful and priced it into expected earnings.

Trump's Infrastructure Plan: $1 Trillion is anticipated and the market has priced it into certain sectors.

Fed Monetary Policy: After the raise in March, 2 more hikes are expected this year. Market is reacting and hoping the Fed slows down!

Dollar Strength U.S. – Other Currencies: The U.S. Dollar weakened relative to most global currencies in Q1 despite rising rates. Global equities are hoping for a weaker dollar and Trump has mentioned a "weak dollar" policy.

Growth Opportunities – Europe & Emerging
Global markets have rebounded as Trump has backed off his comments about foreign trade and investors identify the cheap valuations.

Strategically and tactically, we rebalanced our portfolios last quarter to a more conservative domestic exposure and increased international holdings. Took chips off the table!

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

Stable Growth Continues Unabated

The economic news remained positive throughout the 1st quarter. Housing prices are perhaps the most encouraging, finally recovering to levels that were reached prior to the bursting of the housing bubble that began in 2007. Single-family home prices are up 16.5% over the past 12 months and new home construction rose 6% over the same period. Manufacturing data is also strong with production, employment and orders increasing in each of the last six months.

The labor market remains strong with robust job growth, rising wages and continued low unemployment below the 5% threshold. Hourly earnings in the private sector are up a solid 2.8% over the past 12 months. The economy added an average of nearly 240,000 jobs per month in the 1st quarter. All of this created more consumer spending power. However, the rate of personal spending has outpaced wage growth, showing that consumers are adding to their debt load for the first time in years.

Improving economic fundamentals led to a re-emergence of inflation as a potential issue. In February, consumer prices rose by an annualized rate of 2.7%, well above the Federal Reserve's desired target of 2% annual inflation. Yet investors appear less concerned about inflation threats, and more encouraged by the economy's strength.

Looking Ahead

The Fed's indication that more interest rate hikes are coming in 2017 appears justified. Low unemployment, healthy wage growth, strong manufacturing data and housing activity suggest that a solid foundation for continued economic growth is in place. This is *before* we consider the potential economic stimulus created by new policy proposals from Congress and the White House. If reduced taxes and infrastructure spending are added to the equation, it could keep the economy on a strong, upward trajectory for the foreseeable future. That could prompt more Fed rate hikes to offset potential inflation risks.

Quote of the Quarter:

"Diversification is one of those things that isn't needed until it is."

BOND MARKETS

Interest Rates Shift Gears

As expected, bond yields continued to trend modestly higher for much of the 1st quarter. The yield on the benchmark 10-year Treasury note rose from 2.45% to more than 2.6% by mid-March. Investors' appetite for risk subsided slightly after the failure of the health reform bill at that point, and the yield on the 10-year Treasury slipped back to below 2.4% by the end of March.

As a result, bonds generated modestly positive gains. The broad market as measured by the Barclays U.S. Aggregate Bond Index was up 0.82% for the quarter. The Barclays U.S. Government Bond Index rose 0.68%, though it is down 1.34% for the past year.

Corporate and Emerging Market bonds outpaced the rest of the market. High Yield bonds gained 2.7% (and have returned 16.4% for the past 12 months). Emerging Market bonds rose 3.9% in the 1st quarter, and a total of 9% over the past 12 months.

All Star's bond portfolio continues to perform well in this tricky environment. We generated a 3.0% gain over the first three months of 2017. We benefited from owning a well-diversified mix of investment grade and high yield corporate bonds along with diversified global bonds. The portfolio's allocation maintained a shorter duration in our portfolio, which has helped add value as interest rates moved higher. Given our expectation that rates have more room to rise, we will continue to follow this strategy.

Looking Ahead

As we've noted previously, a more than three-decade trend of declining interest rates seems to be behind us. As interest rates rise, bond values can fall. The bigger question today is how far and fast will rates rise? Much will be dictated by whether the economy shows renewed strength and possibly triggers a further pick-up in inflation.

Another important variable to watch is how U.S. interest rate policy measures up to that of the rest of the world. Other central banks are maintaining very low, and in some cases negative interest rates. The Federal Reserve is on a different track and is now focused on raising interest rates. If the global economy shows signs of improvement, it could mean that central banks overseas will begin to raise rates in tandem with the Fed. This movement away from diverging monetary policy could foreshadow another positive trend in the global economy.

Domestic Stocks

Equities Reach All-Time Highs

Continued optimism about the potential impact of the "Trump Effect" and improving core economic data pushed the U.S. stock market to all-time highs. The S&P 500 jumped out of the gate in 2017 with a 7% gain over the first two months. The Dow Jones Industrial Average, the S&P 500 and the NASDAQ Composite index each set all-time records on March 1st. The Dow and S&P 500 recorded 110 straight trading days without a decline of 1% or more in a day. That was the 7th longest streak on record, but it was finally snapped with a more than 1% drop on March 21st.

Big company stocks generated the most impressive gains in the 1st quarter. The large-cap Russell 1000 Index returned 6.0% over three months. The Russell 2000 Index (small caps) lagged significantly, but still gained 2.5%. Growth stocks benefited more from the market's ongoing rally. The Russell 3000 Growth Index achieved an 8.6% gain for the first three months, while the Russell 3000 Value Index managed only a 3% total return.

Gains were widespread in the 1st quarter, but concentrated most on Technology (up 12.5%) due to strong performance by behemoths such as Apple, Google and Amazon. The Healthcare sector managed a solid 8.6% return. The only notable lagging sector among stocks was Energy, which saw returns decline by 6.5% as oil prices fell.

Looking Ahead

Just a few months ago, we wondered if the U.S. equity market might be getting ahead of itself based on the economic data at the time. The rally kept pace in the first two months of 2017 as investor optimism grew. Markets started to tail off as the quarter came to an end. Investors may begin to pay closer attention to valuations to determine if stocks are fairly priced or still have room to grow. At the end of March, the price-to-earnings ratio (P/E) on the S&P 500 stood at 24.8, based on earnings of the previous 12 months. That is significantly higher than the historical average P/E ratio of 18 to 20. We'll be closely monitoring whether earnings growth, potentially stimulated by lower taxes and a boost in infrastructure spending, can keep this overvalued market moving in a positive direction.

International Markets

Rebound & Outperform

After a disappointing 4th quarter of 2016, relative to U.S. equity performance, foreign equities significantly outperformed in the 1st quarter. Then, President-Elect Trump's comments about canceling trade agreements with other nations after his election sent international equities spiraling in the 4th quarter. As those comments dissipated and President Trump focused on other priorities, investors were attracted to the discounted valuations and foreign markets recovered. The MSCI Emerging Market Index increased 11.5% during the quarter.

Developed markets performed well too, with a sterling 8% gain during the first three months. Europe was a standout performer as the outlook for economic growth in Europe was the most positive in several years. A continued concern in Europe is the potential instability created by "Brexit," as the United Kingdom formalized its intention to leave the European Union over the next two years.

Looking Ahead

Stock market valuations are more compelling in Europe and Emerging Markets than in the U.S., which continues to make global diversification an attractive consideration. P/E ratios are 14.6 times earnings in France, 13.9x in Germany, 13.2x in Spain and 12.6x in Italy, compared to a P/E of 24.5x times earnings in the U.S. Valuation of Chinese stocks, now at 7.2x, is even more attractive. This represents an opportunity for investors. Underlying economic growth is a big factor in determining whether valuations are appropriate, but there are reasons for optimism about growth prospects in many parts of the world. If that occurs, international equities should remain well positioned in the months to come.

PERFORMANCE UPDATE

The First Quarter

Market Index	1st Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	5.19	19.91	10.61	12.15
S&P 500	6.07	17.17	10.37	13.30
Russell 2000	2.47	26.22	7.22	12.35
S&P Mid Cap 400	3.94	20.92	9.36	13.32
Russell 3000	5.74	18.07	9.76	13.18
S&P Global BMI	**6.95**	**15.99**	**5.62**	**9.12**
MSCI EAFE	7.25	11.67	0.50	5.83
MSCI Emerging Mkts	11.45	17.22	1.18	0.81
NASDAQ Composite	10.13	22.88	13.43	15.28
Barclays US High Yield Bond	2.70	16.39	4.56	6.82
Barclays US Aggregate Bond	0.82	0.44	2.68	2.34
Barclays Global Aggregate Bond	1.76	-1.90	-0.39	0.38
JPM Emerging Bond Diversified	3.87	8.92	6.23	5.83
Barclays US Government Bond	0.68	-1.34	2.04	1.59
Barclays US Credit Bond	1.30	2.96	3.52	3.70

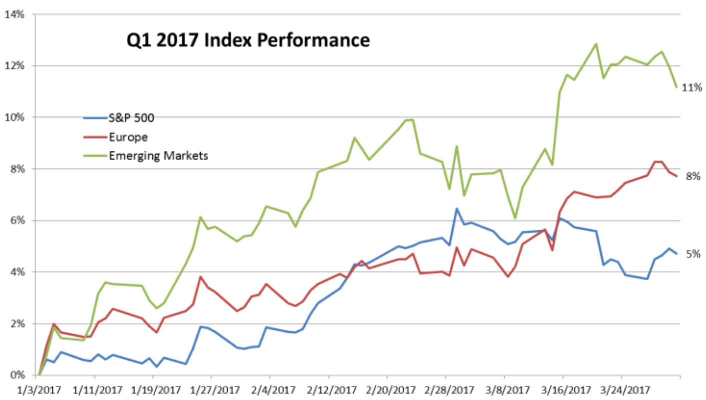
SUMMARY & OVERVIEW

Investors need to remain prepared for the potential consequences of a world that faces notable uncertainties about its future direction. Results from the 1st quarter are clearly an encouraging sign. Not only do investors still anticipate positive developments in terms of new policies, but the underlying economy seems to be on an upswing even without that type of stimulus.

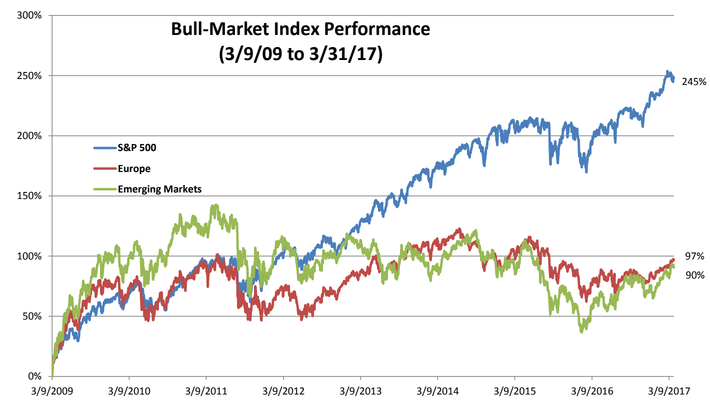
This continues to point to a favorable outlook for equity markets, even though there is legitimate concern of entering the 9th year of a domestic bull market, a correction is always possible. We'll be carefully watching events in Washington and other parts of the world to see if they track with investor expectations and make adjustments accordingly. In the meantime, we continue to encourage a focus on broad diversification to achieve long-term investment objectives.

Four Insights on International Equities

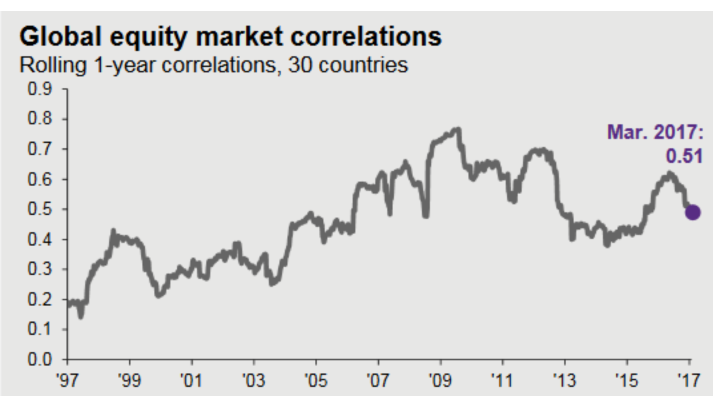
Q1 2017 Performance: Over the past several years, we have continued to talk about why we believe international equities have been undervalued and underappreciated in their role within a diversified portfolio. We continue to believe that international equities will "have their day" relative to domestic stocks. In the 1st quarter of 2017, we started to see the benefit (see graph below). Emerging markets (+11%) and Developed Equities (+8%) outperformed US equities (+5%).



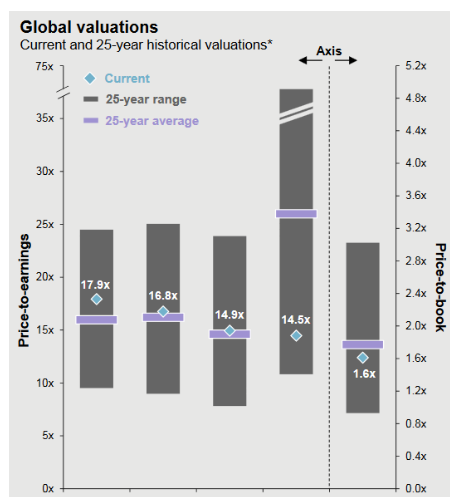
Relative Bull-Market Returns: We feel there is still additional upside for international equities as domestic equities may have reached their peak. As you see in the graph below, since the beginning of this 8+ year bull-market (March of 2009), broad Large Cap U.S. equities have drastically outperformed the international equities by about 2.7 times. In our view, this leads us to believe that if earnings in Europe and emerging economies can begin to grow close to that of the U.S., there is significant upside in international equity returns.



Correlation: In building diversified portfolios, we try to utilize investments that have low correlation to one another to help minimize downside risk. Ideally, portfolios contain asset classes that move opposite to one another. As you can see from the graph below, in the 2nd half of 2016 the correlations declined as global equities started to move opposite of one another. In our approach to portfolio construction, this makes international equities more attractive.



Valuations: Our discipline of finding value is the driving force behind our continued commitment to international equities. Previously in the newsletter we looked at valuations by using **historical** Price to Earnings (P/E) ratios. In the chart below, you can see that **forward** looking P/E ratios have the same trend. U.S. equities are priced *further* above their 25-year average than Developed Markets, Europe, and Emerging. U.S. equities have a forward looking P/E ratio of 17.9 compared to the historical average of 15.2, while non-U.S. equities are priced closer to their historical averages or below in the case of emerging markets.



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, our valued client.

JUST FOR FUN

Restaurant Recommendation

Jax Café

Looking for an excellent meal any time of the day? Jax Café has been proudly serving Northeast Minneapolis for over 75 years, and offers exceptional brunch, lunch and dinner menus! Enjoy your meal on their scenic patio, dine within their elegant dining room, or perhaps even take a seat at their bar. Wherever you choose to sit, you will be in great company as their professional and friendly staff creates a warm and inviting atmosphere. Choose from a variety of different meal options including an exquisite brunch filled with sweet and savory breakfast favorites. Busy afternoon? Jax Café now offers a boxed lunch option which includes an assortment of different soups, salads and sandwiches. As if you are not already convinced, Jax Café has a superb dinner menu which includes prime rib, tenderloin, pork chops and a variety of seafood options. No matter the mealtime, Jax Café will not leave you disappointed!

Grandma Carol's Texas Bars

Bring to boil:

- 1 cup butter
- 1 cup water
- ¼ cup cocoa

Cool slightly and add:

- ½ cup buttermilk
- 2 cups sugar
- 2 cups flour
- 2 eggs
- 1 tsp baking soda
- Dash of salt
- 1 tsp vanilla

Bake at 350 degrees for 20-30 minutes in a 10x15x1 inch jelly roll pan. Cool and frost.

Add frosting:

- Boil for two minutes
- ¾ stick butter
- 4 oz. evaporated milk
- 1 ½ cup sugar

Remove from heat and add:

- ¾ cup mini marshmallows
- ¾ chocolate chips
- Stir until cool, and it spreads consistently

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