ALL STAR FINANCIAL
Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

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UNCERTAINTY LINGERS AS ELECTION LOOMS

As Americans tried to grasp what has turned into a highly divisive election year, the investment markets delivered solid performance. Most asset classes generated positive returns during the 3rd quarter as stocks have recovered from the sharp selloffs in the first six weeks of 2016. In a year highlighted by some unusual events, the looming presidential election in November is another uncertainty that will determine whether 2016 ends on a positive note.

It has proven to be a strong year for non-traditional candidates in both parties. Bernie Sanders provided a surprisingly stiff challenge in the primaries for the ultimate Democratic nominee Hillary Clinton. On the Republican side, a bevy of more traditional candidates lost the nomination to outsider Donald Trump. The subsequent Clinton-Trump race has turned into a heated battle that remains too close to call. A Clinton victory is seen as likely to retain a degree of continuity in government, while the election of Trump could bring many unknown policy implications that add to heightened market uncertainty.

The election follows on the heels of other issues that have contributed to investor uncertainty this year – Britain leaving the European Union (Brexit), the expectation of more Federal Reserve interest rate hikes, China's slowing economy, and volatility in the oil market. Nevertheless, stock markets have managed to cobble together gains and the bond market has proven to be more stable than most predicted.

Nevertheless, there is justifiable anxiety among investors as the year winds down. In the coming months, it is reasonable to expect:

- Markets to become more volatile
- Political gridlock to remain intact, regardless of the election's outcome
- New, attractive opportunities to present themselves to long-term investors

BOB'S CORNER

Thank You Bruce!

All Star Financial would not be who we are today without the steady influence of my friend Bruce Bonner. After 18 years of service as our Portfolio Manager, Bruce is retiring and looking forward to spending more time with his family, at his lake home, and traveling. We will miss his in tune perspective on the markets and life. We wish him the best of every day in retirement.

Welcome Alexander!

After a lengthy search, we finally found Bruce's successor as All Star Financial's Portfolio Manager. Alexander Källebo comes to us after years of wealth management experience in Florida and most recently, his position at U.S. Bank in their wealth management division. Alexander enjoys spending time with his wife Lisa and two daughters Linnea and Sofia. We look forward to Alexander's continued focus on maximizing All Star's value driven investment process.

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

Consumers remain the backbone of the U.S. economy

Consumer spending, responsible for approximately 70% of U.S. Gross Domestic Product (GDP), remains the foundation of the U.S. economy. A case can be made that the consumer is in better shape than it has been in a long time. Household wealth is at an all-time high of $89.5 trillion while household debt service is at its lowest level since 1980. Further encouragement comes from a recent U.S. Census Bureau report showing that median incomes rose by 5.2% in 2015. Wage gains are accelerating and the personal savings rate has risen to 5.7%. Growth in consumer spending has held steady this year, at about a 3% increase over the previous 12 months.

Yet the rate of economic growth remains disappointing. This can be attributed in large part to a decline in business spending of 2.5% over the 12-month period ending in June. Business leaders remain cautious prior to the election. The combination of slower business spending and declining productivity contributed to disappointing economic growth. Real GDP grew by an annualized rate of just 1.4% in the 2nd quarter.

Inflation remains a non-issue. The Consumer Price Index (CPI) was up just 1.1% over the past year. The Core CPI rate (excluding the volatile food and energy sectors) climbed 2.3%, still considered modest. This gave the Federal Reserve the flexibility to once again delay raising interest rates. The latest indication is that the Fed will follow up last December's rate hike with another small hike in December of this year.

The housing market has maintained a healthy recovery. With the strength of the jobs market, it seems likely that housing activity can remain solid even if interest rates begin to rise modestly. However, we note that according to the Home Affordability Index, the housing markets are less affordable now than they were in 2015 as prices have increased faster than wage growth in many parts of the country.

Looking Ahead

We expect the U.S. consumer to keep contributing to ongoing economic growth as steady job expansion and low interest rates persist. Unemployment remains below 5% and there are 5.6 million job openings nationwide. On the other hand, business spending is likely to remain flat at least until the outcome of the election is known and businesses have a clearer outlook regarding fiscal and government policy in the next administration. As a result we may not see the traditional year-end boost to business spending.

The Fed's monetary policy may have reached an inflection point, which could have implications for the economy going forward. A hike in short-term interest rates seems more likely than not in December barring any negative surprises in the coming months.

BOND MARKETS

A taste of rising interest rates

Bond markets experienced slight changes in the 3rd quarter as interest rates moved modestly higher. The 10-year Treasury yield has risen 28 basis points (0.28%) since reaching a low of 1.34% in early July. The Barclays U.S. Aggregate Index rose +0.5%, virtually flat while the Barclays Government Bond Index declined -0.3%.

Disappointing economic reports emerged at the end of the quarter. Both retail sales and industrial production declined in August. The economy's slow growth this year contributed to the Fed's split decision to defer rate hikes at its September meeting.

Corporate and Emerging Market bonds continue to provide a yield advantage for investors when compared to Government bonds. High yield bonds gained +5.6% in the 3rd quarter, topping all other sectors in the bond market. Emerging markets continued to perform well thanks to a stable dollar, improving credit quality and attractive yields. Emerging Market bonds rose +4.0% during the quarter.

Looking Ahead

We continue to approach the bond market with caution as it (like the stock market) appears to be fully valued and "priced to perfection." The key benefits for investors are as a source of income, portfolio diversification and mitigation of risk.

We expect a continued divergence in central bank policy across the globe. While the Fed is poised to raise interest rates, the European Central Bank and Bank of Japan continue to move in a different direction. Both are incorporating quantitative easing strategies and negative interest rates in an effort to jump-start their own economies.

In preparation for the increasing likelihood that the Fed will, in fact, move to raise interest rates, All Star Financial has begun to shift traditional bond allocations to non-traditional sectors. We've directed some fixed income assets into floating rate bonds and preferred stocks. If interest rates should begin to rise, we may put more emphasis on assets such as real estate investment trusts (REITs), master limited partnerships (MLPs) and other assets that generate attractive income. We will closely monitor the interest rate environment and make adjustments as needed to prudently manage your portfolio.

Domestic Stocks

Stocks rise as corporate profits lag

Stock investors were not swayed by reports of frustratingly slow economic growth earlier in 2016. The Russell 3000 Index, a measure of the broad U.S. market, managed a 4.4% gain during the 3rd quarter even as corporate earnings declined for the fifth straight quarter of year-over-year numbers

Small-cap stocks were most impressive during the quarter, even though concerns are mounting that this sector of the market may be overvalued. The small-cap Russell 2000 Index gained 9.1%, while the large-cap Russell 1000 Index returned just 4%. Growth stocks came back into favor, with the Russell 3000 Growth Index returning 4.9% compared to a 3.9% rise for the Russell 3000 Value Index.

Industry sector gains were led by technology stocks (+12.7%). financial stocks were up 4.3%. By contrast, two of the leading sectors earlier in the year, telecom and utilities stocks, fell 5.7% and 5.3% respectively. It may be a sign that dividend-oriented stocks are falling out of favor.

Looking Ahead

Domestic stocks appear to be fully valued, with a price-to-earnings (P/E) ratio in the 18x to 20x range. However, stocks have stayed afloat with the help of low interest rates and modest inflation. We will continue to closely monitor these economic factors that could trigger a change in the environment for stocks.

One potential catalyst for future gains would be an improvement in corporate earnings growth. The forecast for earnings in the 3rd quarter calls for relatively flat growth, but the environment for earnings has been trending in a favorable direction and may turn positive in the coming quarters. If this occurs, it may lead to a rotation in the stock market that proves less beneficial for defensive, dividend-paying stocks, particularly if interest rates move higher.

It is fair to anticipate more volatility in the stock market at least until the presidential election is settled. As always, the focus at All Star Financial is to manage the impact of market volatility in our portfolios in the short term while positioning portfolios for long-term return.

International Markets

Aggressive central banks & "re-emerging markets"

Foreign stocks benefited from continued aggressive monetary policies from central banks overseas. Despite fears to the contrary, Britain's economy did not derail in the aftermath of the "Brexit" vote and stocks in Britain actually gained 4.6% during the quarter.

Global stocks (ex-U.S.) gained 7.2% for the period, outperforming domestic stocks by a healthy margin. The benchmark for developed markets, the MSCI EAFE Index, rose 6.4% while small-cap stocks in the MSCI Small Cap EAFE Index performed even better, with an 8.6% return. Japanese stocks led the charge among developed markets, logging an 11.1% gain while European stocks were up 4%.

Emerging market stocks "re-emerged" from a difficult first half of the year, with the broad Emerging Markets Index gaining 9.0%, outpacing both developed global markets and the U.S. market. China topped the sector, with its stock market increasing an impressive 13.9%. Brazil also outpaced most returns with an 11% gain at quarter end. The turnaround for emerging market stocks benefited our portfolios as we've maintained a strategic overweight position to that asset class.

Looking Ahead

Our patience with international stocks bore fruit in the 3rd quarter and we remain optimistic about their potential in the coming quarters. Aggressive monetary policies by central banks in Europe and Japan should continue to bolster overseas markets. Emerging market stocks, supported by favorable demographic trends and great value, continue to represent one of the most attractive opportunities.

In our view stock valuations in overseas markets remain at a discount compared to the U.S. Stock market, another reason to hold overweight positions in foreign markets.

Quote of the Quarter

"I have a tip that can take 5 strokes off of anyone's golf game. It's called an eraser."

-Arnie Palmer

PERFORMANCE UPDATE

The Third Quarter

Market Index	3rd Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	2.78	15.46	9.23	13.77
S&P 500	3.85	15.43	11.16	16.37
Russell 2000	9.05	15.47	6.71	15.82
S&P Mid Cap 400	4.14	15.33	9.35	16.5
Russell 3000	4.40	14.96	10.44	16.36
S&P Global BMI	**5.74**	**12.91**	**5.77**	**11.44**
MSCI EAFE	6.43	6.52	0.48	7.39
MSCI Emerging Mkts	9.03	16.78	-0.56	3.03
NASDAQ Composite	10.02	16.42	13.45	18.54
Barclays US High Yield Bond	5.55	12.73	5.28	8.34
Barclays US Aggregate Bond	0.46	5.19	4.03	3.08
Barclays Global Aggregate Bond	0.82	8.83	2.13	1.74
JPM Emerging Bond Diversified	4.04	16.20	8.19	7.75
Barclays US Government Bond	-0.25	4.00	3.32	2.16
Barclays US Credit Bond	1.23	8.30	5.44	4.83

SUMMARY & OVERVIEW

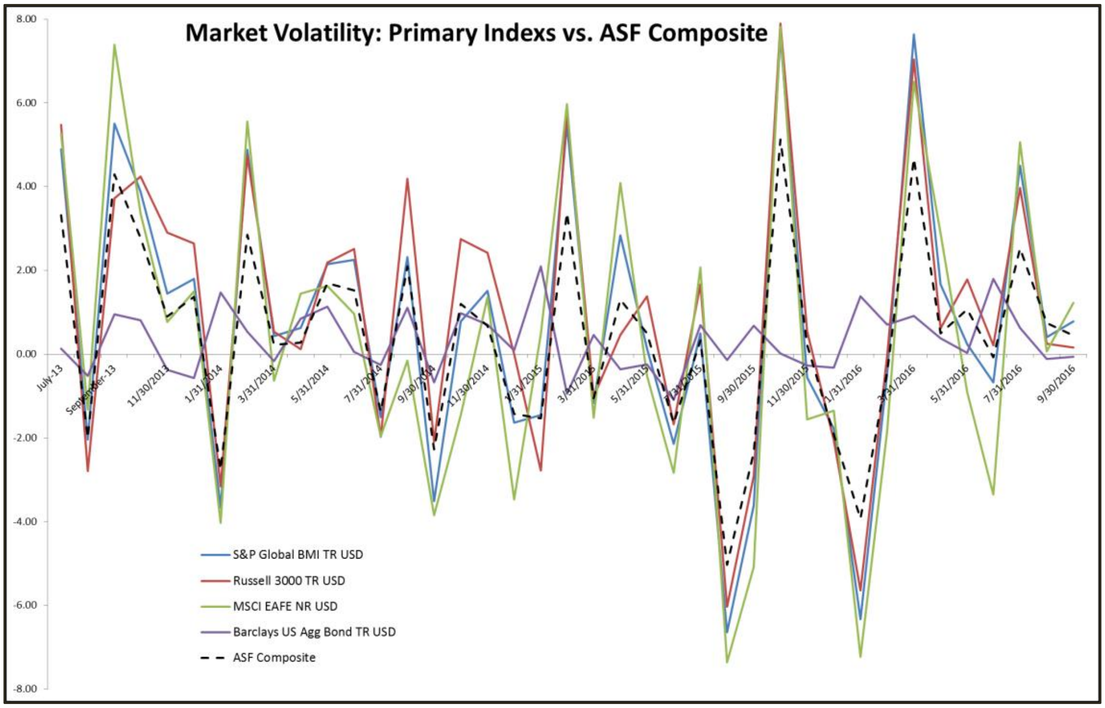
It has been a year centered on uncertainty for investors. Key potential turning points in the closing months of 2016 include November's election and December's meeting of the Federal Reserve's Open Market Committee. We think concerns related to the election may be overstated. The outcome of the presidential election will have a limited impact on the overall economy. Congress and the judiciary act as checks on the executive branch. Regardless of the outcome of Congressional elections, persistent gridlock in Washington is likely to persist. Congress remains in one of its most polarized states in recent times. This means any changes will continue to be gradual.

We recommend that the best route to success is to remain unemotional and, unbiased regardless of the conditions that have created a fear and greed environment that may be dominating the market. Adhering to a long-term, disciplined investment process and maintaining proper diversification are keys to managing risk in uncertain times while staying on track to achieve your ultimate financial goals. (See page 5)

39 MONTHS OF MARKET VOLATILITY

Since March of 2009, the US equity markets have experienced an unprecedented bull market that is continuing to outpace expectations. The experience for investors, however, has been filled with uncertainty. Events like the taper tantrum of 2012, the Greece debt crisis of 2014, historical oil volatility of 2016, China's economic slowdown, negative interest rates, and Brexit have all led to extreme market volatility and turmoil for investors. Throughout these time periods, our investment thesis has remained constant. Use globally diversified portfolios to gain exposure to "cheap" asset classes while also executing tactical trades to provide protection in extreme volatility.

To evaluate our effectiveness, we review our portfolios' resiliency by looking at how well they perform relative to indexes. In the graph displayed below, we are displaying the monthly returns of the four primary indexes that our portfolio allocations characterize (Global BMI, Russell 3000 (US Stocks), MSCI EAFE (Europe Stocks), and Barclays Aggregate Bond). Alongside the indexes, we are displaying the composite ASF average monthly return. We believe the graph demonstrates the ASF portfolio's ability to protect the downside and achieve less volatility than the indexes, creating a better compounding effect over the long-term.



We have included a table below that portrays the number of days since July 2013 that each index has had a daily return of greater or less than 1% (we believe this is an indication of volatility). The result of the comparison reflects what we are trying to achieve – the four All Star Financial models have significantly less down days than their commensurate index and have a better positive spread between the number of up days versus down days. For example, the All Star Financial Income model only had nine days of returns less than -1% compared to the Barclays Aggregate Bond Index that experienced 42 such days during the 39 month time period.

With the volatility we anticipated and experienced in the past three years, our focus has been on risk control. When looking at these last years of the post-2008 bull market, one thing has remained constant…..volatility! There are cycles where we allow our portfolios to run unconstrained (2009 – 2011), however, we are confident our focus to protect our portfolios from volatility and uncertainty over the last 39 months will provide the long term results our clients deserve and expect!

Daily Change	Income	Balanced	Conserv	Growth
> 1%	13	32	49	72
< -1%	9	28	45	65
Daily Change	**Agg Bond**	**Glb BMI**	**EAFE**	**R3000**
> 1%	42	69	104	107
< -1%	42	58	89	105

These returns represent All Star Financial models. Your portfolio's actual returns may differ.
Source: Morningstar and Black Diamond Reporting

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, the valued client.

JUST FOR FUN

Restaurant Recommendation

BAKER'S RIBS

Have you ever found yourself impressed by something that appeared not so pretty, but ended up beautiful? When you think of a strip mall restaurant, I'm quite certain most of us think no thanks. Especially when its pinned between a hair cutting salon and a fast food chain. However, "never judge a book by its cover", right? Meet BAKER'S RIBS. Al Killian has been cooking ribs and brisket in the same wood-fired smoker for 21 years at his Baker's Ribs in Eden Prairie. If you don't like lines, get there about 11:45 before the lunch crowd forms outside the doors. While it appears small from the outside, there is actually generous home style seating inside. They've been featured as Top 10 Ultimate BBQ Road Trips by Fox News. With a large bathtub filled with unique bottle soda's from around the globe and peanuts on the floor, don't forget to see the "Wall of Fame" of signatures to your left of featured visitors. Customer favorites include their succulent smoked barbecued beef brisket sandwiches or the sliced pork sandwiches, served with barbecue sauce on the side. Purchase by the plate or by the pound. Baker's Ribs smokes turkeys and hams to order for the holidays including Thanksgiving, Christmas and Easter. Enjoy the smell! 8019 Glen Ln., Eden Prairie; 952.942.3557

Paula's Apple Crisp Pie

Ingredients:

- 1 C flour
- 1 C sugar
- ½ tsp salt
- 1 tsp baking powder
- 1/8 tsp Cinnamon
- 1 egg
- 1/3 C butter
- 5-6 Large Apples peeled
- 1 Pillsbury pie crust

Directions:

1. Preheat oven to 350 °F
2. Place pie crust in std 9" pie dish. Flute edges and poke holes in bottom of pie crust.
3. Mix 2 Tbsp flour, ¾ C sugar and cinnamon.
4. Peel and slice 5-6 apples. Combine with mixture then place evenly over pie crust.
5. Mix together 1 C flour, 1 C sugar, 1 tsp baking powder and ½ tsp salt in a large bowl.
6. Mix in 1 beaten egg then add 1/3 C melted butter and mix all together.
7. Place mixture on top of the apples in pie dish.
8. Place in oven at 350 °F for 1 Hour
9. Best served with Ice cream.

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