ALL STAR FINANCIAL
Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

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Stocks Rebound as Interest Rates Rise and Oil Drops

Stock markets rebounded during the 4th quarter, recovering about half of the ground lost during the 3rd quarter correction. The economy continued on a slow but very stable growth path as Gross Domestic Product (GDP) rose at an annualized rate of 2% in the 3rd quarter. This rate of growth gave the Federal Reserve the confidence to raise the Fed funds interest rate from 0.25% to 0.50%. That was the first increase after eight years of a zero percent monetary policy.

It is important to note that the Fed has never before raised rates with the economy growing so slowly. Fed Chair Janet Yellen indicated that future rate hikes will be gradual. We do not currently see sufficient economic growth or inflation to warrant more than one additional rate hike in 2016. The Fed needs to be careful not to fall into the same predicament as other countries that raised rates after the 2008 recession, and then were forced to lower them again when their economies stumbled.

The Fed's actions diverge from that of the European Central Bank (ECB) and the Bank of Japan (BOJ). Both are keeping interest rates low while promoting an active bond-buying program, known as quantitative easing (QE). China's rapid rate of economic growth has faded a bit, leading its central bank to lower interest rates while its government engages in fiscal stimulus. Aggressive monetary policy abroad could result in stronger corporate earnings for overseas stocks in 2016.

Crude oil prices were a big story in the 4th quarter. Continuing a trend that carried throughout much of the year, oil prices dropped significantly. The price of a barrel of crude fell below $35/barrel, and gas prices slid below $2.00/gallon, both occurring for the first time since 2009. Consumers benefited by having more money in their pockets, but energy company earnings suffered.

The slow but moderate growth mode that persisted across the globe resulted in mostly flat or negative returns for investors in most asset classes. As we look ahead to 2016, the challenges include diverging monetary policy in developed markets. Interest rates are rising in the U.S., but are being pushed lower in other developed countries (Japan and Europe). Emerging market growth is mixed as commodity-based countries such as Brazil and Russia confront recessions. China, India and other Asian markets are facing slower rates of growth.

Even though international stock valuations remain favorable, lofty valuations for U.S. stocks combined with the likelihood that global economies will continue on their modest growth track, another year of tempered returns seems likely for investors in 2016.

BOB'S CORNER

HAPPY NEW YEAR 2016!

Heading into 2016, we have experienced a 24 month period of ups and downs in the global equity markets. When the markets opened for their first day of trading in 2016, we were looking forward to the start of a new trading year. Unfortunately, it was more of the same as the China scare has created additional volatility to start the year.

I would like everyone to read the email/blog we sent out on 1-7-16 to understand that our belief is that investors with the appropriate risk tolerance and goals may view this as an opportunity.

We also are excited to welcome our latest addition, Nick Sullivan, to the team. Nick is a Philadelphia native who graduated from Penn State where he studied finance and economics. Nick worked for Vanguard the last few years and recently passed his Certified Financial Planner exam. He will work as a Wealth Manager for All Star with quarterly reviews and financial planning responsibilities. He will also ultimately lead our Retirement Plan advisory services.

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

The Consumer is Still the Key

Consumer spending represents more than two-thirds of the U.S. economy. Thankfully, consumers were well positioned as 2015 came to a close. The job market is also healthy, with an average of 218,000 jobs being created per month in the past quarter. The unemployment rate has fallen to 5% and wages grew by 2.3% as the economy approached what are considered "full" employment levels.

Other encouraging signs about the strength of the consumer include a 4.4% increase in personal income and a 2.9% jump in spending. Automobile sales have been particularly strong, up 6.2% to an annualized level of 18 million. Buyers appear to be encouraged by low gas prices and favorable financing terms. Also notable is that the personal savings rate remains above 5%, a sign that consumers are using some of their savings at the gas pump to pay down debt and put more money aside.

The housing sector has held up well, with home sales up 9% and the median price of existing homes rising 6%. There are no signs that another bubble in housing prices is approaching. Rising interest rates may be a factor in the coming year, but we expect any rate increases to be gradual and still quite low from an historical perspective, helping guide the housing market.

The stronger dollar and lower oil prices have benefited consumers, but have had a negative impact on corporate earnings. Profits for the S&P 500 declined 2.4% in the 3rd quarter. If the energy sector is excluded from the calculation, earnings actually rose 4% during the period. We expect to see the same pattern when 4th quarter earnings are released.

Looking Ahead

The healthy jobs market should continue to boost consumer spending in the year ahead. We also expect consumers to continue to benefit from the "oil dividend" again in 2016. Interest rates may rise, but if the Federal Reserve has its way, only modestly.

Business spending may remain muted due to the strong dollar and reduced investment in the struggling energy sector. Inflation should not be a major issue given expectations for continued low oil prices and modestly accelerating wage gains. We anticipate the economy will grow in the range of 2.0 to 3.0% in 2016.

One favorable piece of news from Washington was the approval of a bipartisan budget deal by Congress that avoids the risk of a government shutdown this year, while supporting many favorable tax provisions.

BOND MARKETS

Interest Rates Trend Higher

Bond investors generally seemed to anticipate the Fed's decision in December to raise interest rates. Yields trended higher in the lead-up to the Fed's move. The yield on 10-year Treasury notes rose 20 basis points during the quarter.

Most bond sectors suffered declines during the 4th quarter as interest rates moved higher. The Barclays Aggregate Bond Index fell 0.54% and the Barclays Global Aggregate Index declined 0.61%. Treasury bonds were among the hardest hit, losing 0.76% during the period. Investment grade credit bonds fell 0.46%. The decline in oil prices took a significant toll on energy sector bonds, which declined in the 8% to 20% range during the 4th quarter. Treasury Inflation Protected Securities (TIPS) fell 0.66% as inflation remained a non-factor.

Municipal bonds and emerging market bonds were the top performing bond sectors in the quarter. Both categories recovered from 3rd quarter declines, gaining 1.42% and 1.15%, respectively, on rebounding currency values.

Looking Ahead

We believe the Fed will be very slow to raise interest rates further and would not be surprised to see it limited to just one more rate hike in 2016. We expect long-term bond yields to remain low. The recent negative volatility in bond prices has created the opportunity to buy both domestic and overseas bonds at value prices.

We have exposure to short-term, floating rate and emerging market bonds, as they tend to perform well relative to other parts of the bond market in a rising interest rate environment. Bonds still play a valuable role as a diversification vehicle, particularly if the stock market should encounter more volatility in the coming year.

Domestic Stocks

Bouncing back from a 3rd quarter correction

U.S. stocks rebounded during the 4th quarter, led by large cap stocks, as the Russell 1000 Index gained 7.4%. Mid-cap stocks (Russell Mid Cap Index) and small-cap stocks (Russell 2000 Index) each rose 3.6%. Growth stocks continued their dominance over value stocks, but by a narrower margin than has been the case in recent times. The Russell 3000 Growth Index gained 7.1%, compared to 5.4% for the Value segment of the index.

Traditional growth and cyclical sectors drove market performance in the 4th quarter. The Technology, Healthcare and Materials sectors all returned more than 10% for the period. Industrial and Consumer Staples stocks generated 8% gains. On the other end of the spectrum, Energy stocks continued to struggle and were flat for the quarter. Utilities stocks rose just 2% as warmer weather impacted that sector.

Looking Ahead

With S&P 500 earnings forecast to grow by 6-8% in 2016, we anticipate another year of marginal returns for U.S. stocks. The outlook for corporate profits remains muted as both higher financing costs (due to rising interest rates) and the stronger dollar are having an impact on the bottom line for many companies. Pressure to increase wages also may detract from profits.

Technology innovation and healthier consumer finances remain two potential drivers of returns for stocks in the coming year. It reflects our allocation shift to consumer and technology sectors. These trends should continue to favor growth stocks, though a case can be made that value stocks are positioned to rebound from significant underperformance in 2015.

> "Value always Wins, just give it time!"
> *–Bob Klefsaas*

International Stocks

A less robust rebound than U.S. markets

Most foreign stock markets recovered in the 4th quarter after experiencing a difficult 3rd quarter, but returns generally lagged those of domestic markets. The S&P Global Broad Market Index rose 5.7%, with the MSCI EAFE Index gaining 4.9%. Emerging markets trailed the pack, as the MSCI Emerging Market Index rose just 1.8% for the quarter. Small-cap stocks stood out. The MSCI Small Cap Index jumped 5.8%.

Japanese stocks were among the best performers as they benefited from a weaker yen and the implementation of fiscal reforms, their broad market rose 9.1% in the 4th quarter. European stocks returned 3.6% with investors being encouraged by the European Central Bank's decision to cut interest rates and extend their quantitative easing program into 2017. Stocks in China recovered from their dramatic mid-year selloff to return 5.7% in the 4th quarter.

Less impressive were Latin American stocks, including Brazil's, which declined by 1%. A recession in Brazil and the continued drop in commodity prices took a toll across much of Latin America. Russia, also reliant on oil revenues, faced a recession as well and record lows for the ruble on the currency market.

Looking Ahead

Expect central banks in Europe and Japan to continue their stimulus efforts, maintaining low interest rates and quantitative easing measures. That may move corporate earnings forward, with a potential of an 8% jump in 2016. This, along with more favorable valuation levels, should put foreign equity markets in an advantageous position compared to U.S. stocks.

China is also expected to keep interest rates low and pour more spending into its economy, seeking to spur growth and expand access to foreign investors. Asian economies are beneficiaries of lower oil prices while Brazil, Russia and other commodity-based countries are likely to continue struggling. Attractive stock valuations and long-term demographic growth trends should make foreign stocks, including those in emerging markets, an increasingly attractive investment over the long run.

PERFORMANCE UPDATE

The Fourth Quarter

All Star Portfolios	3 Yr Beta	3 Yr Alpha	5 Yr Beta	5 Yr Alpha	4th Qtr	1 Year	3 Years	5 Years
Income								
Balanced								
Cons Growth								
Growth								

Beta & Alpha (vs. Global BMI)

Market Index	4th Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	7.70	0.21	12.66	11.30
S&P 500	7.04	1.38	15.13	12.57
Russell 2000	3.59	-4.41	11.65	9.19
S&P Mid Cap 400	2.60	-2.18	12.76	10.68
Russell 3000	6.27	0.48	14.74	12.18
S&P Global BMI	**5.12**	**-1.58**	**8.43**	**6.63**
MSCI EAFE	4.71	-0.81	5.01	3.60
MSCI Emerging Mkts	0.66	-14.92	-6.76	-4.81
NASDAQ Composite	8.71	6.96	19.81	14.91
Barclays US High Yield Bond	-2.07	-4.47	1.69	5.04
Barclays US Aggregate Bond	-0.57	0.55	1.44	3.25
Barclays Global Aggregate Bond	-0.92	-3.15	-1.74	0.90
JPM Emerging Bond Diversified	1.25	1.18	0.99	5.36
Barclays US Government Bond	-0.91	0.86	1.01	2.77
Barclays US Credit Bond	-0.52	-0.77	1.49	4.38

*The above after-fee annualized total returns and betas represent All Star Financial models. Your portfolio's actual returns and betas may differ depending on your specific portfolio holdings.

SUMMARY & OVERVIEW

Despite the strong 4th quarter, the U.S. stock market was relatively flat and international markets were mostly negative for the year. Throughout 2015, there were many developments that made the environment tumultuous. Oil prices declined sharply, benefiting consumers while causing a setback for previously high-flying energy companies. The economy and markets survived the first major stock market correction in years. Finally, the Federal Reserve brought an end to its zero interest rate policy.

As you already probably know, markets do not like uncertainty and I can promise that we will continue to have a significant amount of uncertainty as we go through the election year of 2016. A strong organic growth in the U.S. would be nice but doubtful. Quantitative Easing #4 may be in the wings as we speak. For this and many other reasons, we believe that investors should anticipate that modest returns will be the norm as we enter into the seventh year of a long recovery after a deep recession.

Emerging Markets: The Challenge and Opportunity

The bull market we've experienced in domestic equity markets over the past six years has been historical in nature. From March of 2008 until the end of 2015, the Russell 3000 Index (a broad measure of US Stocks) has outperformed Emerging Market indices by over 100%. This divergence has been driven by many economic factors, specifically the recessions in Brazil and Russia.

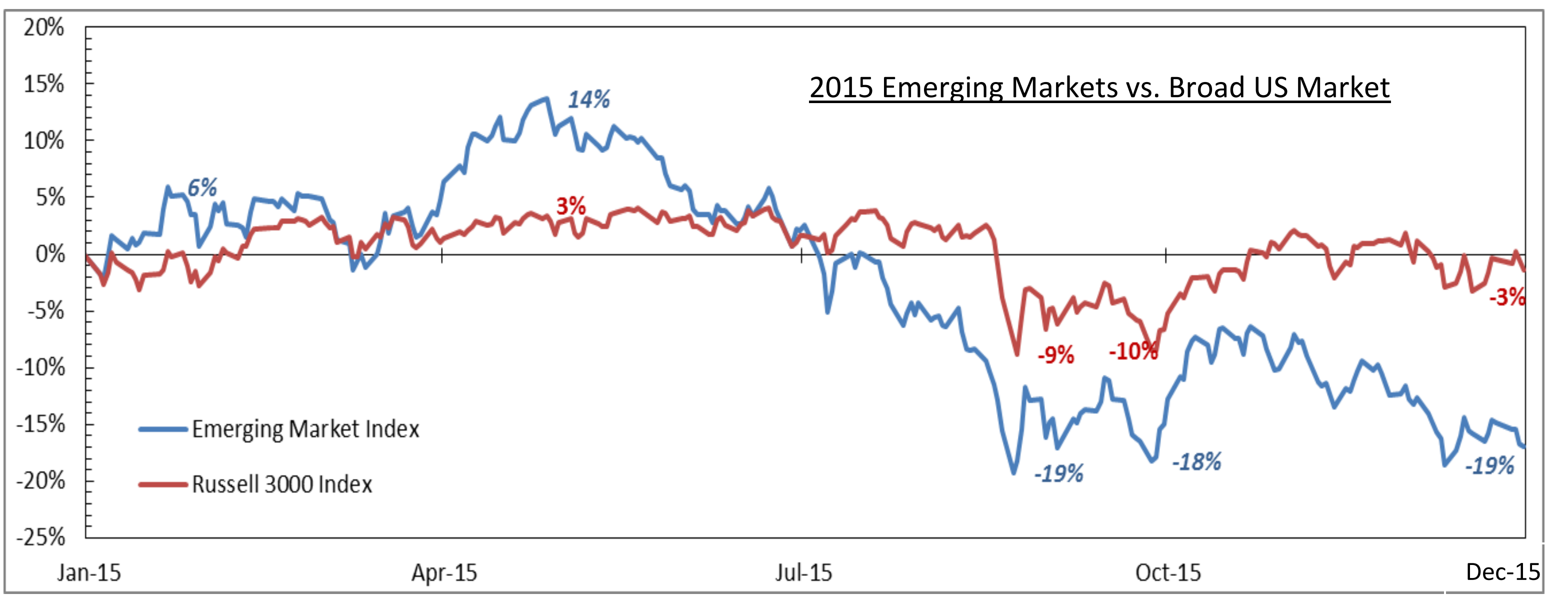
As a value focused investment manager, we have continued to evaluate the role that emerging markets should play in a diversified portfolio. We continue to believe it is both a value proposition and a growth opportunity. As shown to the right, the emerging markets GDP is growing over 50% faster than US Markets and twice the pace of other developed markets around the world. This is despite the slower growth being experienced in China over the past few quarters. On a price to earnings (P/E) basis, the Emerging index is trading at a 40% discount relative to the US Markets. Truly, when investing in these areas you must be able to tolerate additional volatility and risk (*but what a value?!).* We balance this risk and volatility by appropriately sizing our allocation to this asset class in our portfolios. Across our models, we have between a 6% and 12% allocation to Emerging Markets. We believe this continues to be appropriate and necessary to achieve long-term 'real' investment returns.

This past year (2015) was a great example of how Emerging Markets can perform in a sideways market. As we predicted because of the disparity in valuations and the positive earnings reports of the first quarter, Emerging Markets significantly outperformed domestic equity markets through April if 2015.

	Emerging Markets	Developed Ex- U.S. Markets	U.S Markets
GDP Growth % [1]	3.80%	1.90%	2.50%
Debt / GDP [2]	75%	111%	100%
Price / Earnings [3]	11.9x	15.4x	19.1x

On April 28th, the peak of the market in 2015, Emerging Markets had appreciated 14% YTD compared to 6% in the US. As concerns about sliding oil prices and the Chinese economy were introduced, we lost the emerging benefits to significant market declines. From the peak in April to the trough on August 25th, Emerging Markets saw a 33% drop compared to the 18% decline in domestic markets. This volatility is a defining difference between domestic and emerging markets and hindered our returns during the year. However, this is also the opportunity. With investors continuing to leave these markets fearful of the volatility, we are committed to keeping our modest exposure within a diversified portfolio that will provide investors enhanced returns in the coming quarters and years [Emerging with 20-30% upside potential compared to US at 5%]. As a global value manager, we will continue to evaluate opportunities in equity and fixed income markets around the world with the goal of providing the most efficient returns in our four models. Value always wins!

1 – GDP figures are forward estimates based on 9.30.15 actuals
2 – Debt to GDP data is as of 9.30.15
3 – Price to Earnings Ratio is for on Trailing 12 mo. earnings



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 from Paula

If you have not yet dined at Broders' Pasta Bar on Penn and 50th in Minneapolis, this is a must for 2016! Broders' hands down is one of my personal favorites! Broders' Pasta Bar features true Italian cuisine with an ever changing seasonal menu, not to mention their regular and made to order dishes that keep you coming back time and again. Each dish is a masterpiece created to delight your taste buds, from the anti-pasta salad starters to the mouthwatering desserts. Broders' does not take reservations and with limited seating your wait time can be lengthy, but well worth every minute. Across the street from the main restaurant is the deli, Broders' Cucina Italiana, which features menu items for take-out or a more casual dining experience. Broders' has been featured on Guy Fieri's infamous Diner's, Drive-ins, and Dive's on the Food Network channel so you know this restaurant comes highly recommended! Plan on waiting patiently while you sip a glass of wine and savor the aromas coming from the kitchen. Broder's will not disappoint! Enjoy!!

Quote of the Quarter

"The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty."

-Winston Churchill

Chicken & Broccoli Hotdish

Ingredients:

- 4 cups cooked broccoli florets
- 2 cups cubed cooked chicken
- 1 can (10 ½ oz) Campbell's condensed cream of chicken soup
- 1/3 cup milk
- 1/2 cup shredded cheddar cheese (about 2 oz)
- 2 tablespoons plain dry bread crumbs
- 1 tablespoon butter, melted

Directions:

- Place the broccoli and chicken into a 9-inch pie plate
- Stir the soup and milk in a small bowl. Pour the soup mixture over the broccoli and chicken.
- Sprinkle cheese on top of the mixture
- Stir the bread crumbs and butter in a small bowl. Sprinkle bread crumb mixture over the cheese.
- Bake at 450°F for 20 minutes or until hot and bubbly.

Serves 4 People

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