



QUARTERLY REVIEW & PREVIEW

THIRD QUARTER 2013

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Markets Zig & Zag

BUT Without Real Economic Justification?!

The global economy showed measureable improvement in the 3rd quarter, a fact that seemed to benefit stock and bond markets worldwide. The question is whether this momentum can continue without the ongoing artificial stimulus of “funny money” from governments and central banks.

Improvements in the housing market and sectors of the manufacturing and energy industries are driving continued positive growth in U.S. markets. **BUT** the level of business investment, consumer spending and hiring increases are still below what we typically see in a recovery. As a result, the Federal Reserve has delayed the so-called “tapering” of its bond purchasing programs in an effort to keep the economy moving in the right direction.

Europe’s long recession may at long last be over as its economy showed positive growth in the 3rd quarter. Unemployment is still historically high in many European countries and banking and debt reforms have a long way to go. But for now, the worst may be over in Europe.

Japan was also a positive contributor to global economic growth during the quarter. Manufacturing has shown renewed strength and a weaker yen helped boost Japan’s export activity. Prime Minister Abe’s aggressive stimulus policies and plans for continued reforms have boosted business and consumer confidence.

It is possible that for the first time in years, we could see an environment where solid economic growth occurs simultaneously in the U.S., Europe, Japan and China, something we haven’t seen in years.

BUT while all of this seems generally positive, a potentially negative implication became a bigger factor as the quarter ended. Policymakers in Washington, as was the case before the start of the year, are hung up on budget and debt ceiling issues. The seriousness of the matter led to a partial federal government shutdown. The concern is that a drawn out shutdown could have damaging economic effects. This is an issue that bears your close attention in the coming weeks and months.

BOB’S CORNER

Welcome to Josiah Larson, Junior Account Executive & the newest member of our TEAM. Josiah is a graduate of the University of Minnesota and for 5 years worked for UnitedHealth Group in the Finance and Marketing departments. Josiah and his wife, Loren, just moved into a new home in Minneapolis.

Also a reminder that tax planning needs to be done now before year end! Please give myself or our CPA, Beth Johnson, a call to help guide you!



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.

ECONOMY

Slow & Cautious Growth

Continued improvement in the housing market and hiring are among the bright spots for the U.S. economy. Manufacturing activity is up and the service sector is growing as well. Overall, the economy expanded at an annualized rate of 2.5% in the 2nd quarter (the most recent quarter for which data is available). You should expect similar results over the rest of the year. At the same time, inflation stayed below historical averages, with core inflation rising at a 1.8% annual rate in recent months.

Monthly payroll gains have averaged 160,000 since March, **BUT** that is about 25% below the level of job growth economists think we need for a sustained recovery. Still, the unemployment rate has dropped from its peak of 10% in 2009 to 7.3% today, although part of that decline is due to the fact that fewer Americans (as a percentage of the population) are seeking employment today than at any time in the past 35 years. The Federal Reserve is looking for the unemployment rate to settle in at 6.5% or less before it starts scaling back its easy money policies.

Businesses continue to sit on cash, holding back on making new investments or new hires. Many are cautious due to uncertainty over the budget stalemate in Washington and questions about the impact of the new Affordable Care Act. Business spending rose just 4.7% in the 3rd quarter, significantly below expectations. This cautious stance is also contributing to our lackluster consumer spending.

Looking Ahead

Despite the government shutdown and fights over the federal budget and debt ceiling, you can expect to hear reports of earnings reaching record levels for the companies that make up the S&P 500 Index. **BUT** the key question is whether companies can continue to grow revenues in an environment where business and consumer spending remains underwhelming.

A number of issues seem to center on Washington in the coming quarter. How will the two parties resolve their conflicts and will it be for the long run? Who will be appointed by President Obama to replace Ben Bernanke as Fed chairman? **BUT**, again, the bigger concern for investors continues to center on whether businesses and consumers will provide the necessary boost in spending to send corporate earnings even higher.

We are committed to reducing risk while still achieving your goals.



BOND MARKET

Taper Tantrum Overdone

Speculation over the Fed's planned "tapering" of its Quantitative Easing programs drove a major bond selloff in the 2nd quarter that extended through the early weeks of the 3rd quarter. The yield on the benchmark 10-year U.S. Treasury note reached nearly 3% in early August before investors realized the selloff had gone too far. By the end of the quarter, the yield slid back down to 2.64%.

BUT the real story in the bond market was that all other major sectors (outside of long-term U.S. Treasuries) generated positive returns for the 3rd quarter. Leading the pack were Eurozone bonds, with a gain of 3.8% during the period. Global and Corporate bonds each returned 2.8% while Emerging Market and Floating Rate bond funds each managed a 1.2% gain. Credit products continued to offer higher yields than Treasuries and outperformed the broad Barclay's Aggregate Bond Index by 0.60% during the quarter.

Looking Ahead

The turnaround for bonds in the 3rd quarter, defying expectations of a continued uptrend in yields, highlighted the important role bonds can play in your portfolio. Along with generating income and providing diversification, bonds tend to offer some consistency. In the past 32 years, bonds have only generated negative total returns twice.

The big question now is what direction interest rates may be headed from here. Chances are, it will depend on the strength demonstrated by the economy. If there is economic improvement, the Fed may be emboldened to reverse some of its easy money policies, and interest rates will rise. If the economy falters, nervous investors may retreat to bonds, driving rates lower.

We know that interest rates will rise more substantially at some point in the future. **BUT** the unanswerable question is when that will happen. We have taken steps to protect your portfolio with positions in funds that can generate more competitive yields without being subject to volatility that can occur if U.S. interest rates rise. We added PIMCO Low Duration, Pioneer Floating rate and Doubleline Emerging Fixed Income. Adding this kind of diversification can help assure your bond mix remains a productive contributor to your diversified portfolio.

"It's Not How Much You Make, It's How Much You KEEP!" –Bob Klefsaas

DOMESTIC STOCK MARKET

Solid Gains, BUT Richer Valuations

The broad U.S. stock market gained 6.4% in the 3rd quarter, reflecting the upward march in corporate profits. **BUT**, the growth rate on earnings flattened to just 2-3% in the most recent reports.

Small-cap stocks paced the market in the 3rd quarter, returning 10%, well ahead of the 6.0% return for Large-cap stocks. Growth stocks (+8.5%) shed their recent doldrums, outpacing Value stocks (+4.2%) for the three-month period. Every industry sector was in the plus column for the quarter except for the often-volatile Telecom industry. Investors rewarded cyclical industries in particular, including Materials and Industrials stocks that both garnered 10.2% and 9.5% gains respectively.

Looking Ahead

Many corporations have supported stock prices by using cash holdings to increase dividends, repurchase shares of their stock and acquire other companies. This provides a short-term boost, **BUT** increased business and consumer spending will be required to keep earnings growth on track and drive stocks higher over an extended period of time. We're concerned that stocks are reaching their full valuation, and small-cap stocks may be at the greatest risk if earnings fall short in the coming quarters.

Business spending typically picks up at the end of the year and there is always the potential that consumer spending will prove a boon to profits around the holiday season. **BUT** stock investors are concerned by issues such as the gridlock in Washington and the uncertainty over the new chairman of the Fed. Those issues could contribute to a volatile environment between now and the end of 2013.

INTERNATIONAL MARKETS

Foreign Stocks Get Back on Track

International stocks have been lagging behind U.S. markets for some time, but that finally ended in the 3rd quarter. Stock markets in Europe (+13.6%), Japan (+6.7%) and Emerging Markets (+5.8%) all were back on track. Investors seem particularly encouraged that Europe's economy finally appears to be growing again, although unemployment levels remain high.

The new, aggressive fiscal and monetary policies implemented in Japan have helped its economy rebound. Consumer and investor sentiment is the best Japan has seen in years. More steps may be taken if needed to keep the country's economy growing. Economic data improved in China during the quarter also. That helped drive positive performance among Emerging Market stocks.

Looking Ahead

The 3rd quarter recovery for foreign stocks may represent just the start. From a valuation perspective, overseas stocks generally look far more attractive than U.S. issues. Many companies also pay higher dividends than their U.S. counterparts. That's one reason we've maintained our foreign and emerging market allocations.

Another factor that could benefit foreign stocks is that central banks could take more aggressive actions to boost the money supply. The European Central Bank still has room to trim short-term interest rates. The Bank of Japan has also made it clear it will maintain an aggressive monetary stance until 2015.

We've shifted some of our foreign exposure to a more growth-oriented small cap fund. Our belief is that using active managers, rather than index-oriented funds in a period of uneven growth among emerging economies will work to your benefit. Active managers should be in a position to outperform indexes in this specialized segment of the market.



PERFORMANCE UPDATE

The Third Quarter

All Star Portfolios	3 Yr Beta	3 Yr Alpha	5 Yr Beta	5 Yr Alpha	3 rd Qtr	1 Year	3 Years	5 Years
Income	0.49	0.58	0.50	2.28				
Balanced	0.65	-1.75	0.66	0.97				
Cons Growth	0.76	-1.35	0.79	0.05				
Growth	0.86	-1.49	0.92	-0.75				

Beta & Alpha (vs. Global BMI)

Market Index	3 rd Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	5.91	20.89	16.62	10.60
S&P 500	5.24	19.34	16.27	10.02
Russell 2000	10.21	30.06	18.29	11.15
S&P Mid Cap 400	7.54	27.68	17.45	13.08
Russell 3000	6.35	21.60	16.76	10.58
S&P Global BMI	8.41	19.42	11.04	8.86
MSCI EAFE	11.56	23.77	8.47	6.35
MSCI Emerging Mkts	5.77	0.98	-0.33	7.22
NASDAQ Composite	11.19	22.77	18.17	13.76
Barclays US High Yield Bond	2.28	7.14	9.19	13.53
Barclays US Aggregate Bond	0.57	-1.68	2.86	5.41
Barclays Global Aggregate Bond	2.80	-2.64	2.09	5.07
JPM Emerging Local Mkts Bond	1.19	-4.06	4.95	9.75
Barclays US Government Bond	0.12	-1.98	2.13	4.00
Barclays US Credit Bond	0.72	-1.90	4.13	8.54

The above annualized total returns and betas represent All Star Financial models. Your actual beta may differ depending on your portfolio holdings.

SUMMARY

Much of our focus early in the 4th quarter will be on Washington. If gridlock continues, you can expect to see markets react to the uncertainty with greater volatility. If the issues are settled productively and a new Fed chairman is put in place, the way could be paved for improved economic growth.

Global economic policy remains focused on taking steps to stimulate economic growth, although the form of stimulus can vary by country or region. Now that most economies are moving in a positive direction, the challenge is to continue along that path.

Emerging markets may be the stand out on the world stage. Their stocks are attractively valued after a period of relative underperformance. At this stage of the bull market (4-1/2 years into it), factors like valuations and investment fundamentals are more important than ever.

Much of our focus in the closing months of the year is on managing risk effectively and to add to investment positions we believe will represent the best long-term opportunities for your portfolio.

The Affordable Care Act and You

It's been 3-1/2 years since President Obama signed the Affordable Care Act (ACA) into law. The centerpiece of that law, the opening of new health care exchanges, was activated on October 1. Coverage can be purchased to take effect as early as January 1, 2014. The initial enrollment period runs from now until March 31, 2014, although you won't want to wait until the last minute if you are interested in purchasing insurance through the exchange.

What you should know

To help you through this new world of health insurance, here are a few facts you should know:

- **Individuals are now required to have health insurance from an employer or purchase it on their own.** A fee (penalty) applies to those who do not comply with the coverage mandate. In 2014, the fee equals \$95 or 1% of annual income, whichever is greater. The penalty for underinsured children in 2014 is \$47.50 per child.
- **You can't be denied coverage if you are burdened with pre-existing conditions.** Premiums can only be based on:
 - 1.) Age;
 - 2.) Family size;
 - 3.) Geographical region; and
 - 4.) Smoking status.
- **There are four types of standardized plans to make it easier to compare options.** The least expensive "bronze" plan covers 60% of "essential health benefits." The "silver" plan covers 70%, the "gold" plan 80% and the "platinum" plan 90%. The lower the premiums, the higher the expected out-of-pocket costs.
- **MNSure.com is now the one-stop shop for Minnesota residents who need to purchase insurance to find a plan.** You can compare plans side-by-side to search specific plan features.
- **The Small Business Health Options Program (SHOP)** is designed to allow small business owners (with fewer than 50 employees) to purchase group insurance. Self-employed individuals can shop for insurance on the exchanges used by other individuals seeking coverage.
- **If you are already covered through a plan offered by your employer, the ACA may have little impact on you.** Assuming your employer will continue to provide coverage, you do not need to look for options on the health insurance exchanges.
- **If you are a Medicare recipient, you are not eligible to enroll in the health insurance exchanges.** You will continue to receive Medicare coverage in the same fashion. Medicare Supplement (Medigap), prescription drug plans and Medicare Advantage are not available through the health insurance exchanges.

What lies ahead?

A key question is whether the ACA will help stem the tide of what have been skyrocketing health care costs in recent decades. Only time will tell if this approach will prove successful in that effort or how effective it will be in providing coverage for most Americans who are currently uninsured.

As with any significant change, there is likely to be a period of adjustment for Americans. Initial analysis of premiums has shown favorable reviews for Minnesota participants compared to national averages. The new law may or may not have an impact on you and your financial position, but we will certainly incorporate any effect it has as we help you assess the best way to achieve your financial goals.

Where to find more information

- **Healthcare.gov**, the federal government's primary website for the ACA, is a great place to start. It also offers a live chat feature and call center support 24 hours a day at 1-800-318-2596.
- **MNSure.com** is the one-stop shop for Minnesotans seeking to purchase insurance on the new exchange.
- **HealthLawAnswers.AARP.org** provides a tool to outline your various health insurance options based on your state, gender, age, household size and income level. It also offers other informational resources about the ACA.
- **KFF.org (Kaiser Family Foundation)** provides objective insight on various aspects of health insurance.



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

For those in the Twin Cities looking for a great restaurant to visit that offers a seasonal option, we want to recommend **Broders' Pasta Bar**. Broders' is in Richfield & if the weather permits, has a great outdoor patio area. Our favorite seasonal dish on the menu is the Butternut Squash Ravioli. We recommend giving this authentic Italian restaurant a try! Let us know what you think.

Quote of the Quarter

"Leadership is doing what is right when no one is watching." –George Van Valkenburg



Bob's Family Recipe

(Bob's Mom) Elaine's Apple Pie

Pie Crust

5 c flour
2 c Crisco
4 T sugar
2 tsp salt
1 egg yolk stirred- place in a glass measuring cup & fill with cold milk up to 1 1/3 c
Mix dry ingredients together, cut in Crisco till pea sized. Use fork to mix in milk/egg mixture. Roll 1/2 mixture out. Place in pie dish.

Pie Filling

6-7c peeled & sliced apples
1 1/2 c sugar
1 tsp cinnamon
1/2 tsp nutmeg
1/2 c flour
2 tsp lemon juice
Mix apples with rest of ingredients & put on crust. Roll out rest of the crust. Make a few small slits in the top. Place on top of apples. Flute edges. Bake at 350° for about 30-35 minutes.

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