QUARTERLY
REVIEW & PREVIEW

FOURTH QUARTER 2013

VOLUME 19 ISSUE 4

Diversification =
Not all asset classes rise like U.S. stocks

U.S. Stocks finish a strong year on a solid note, foreign stocks are mixed, but bonds lose ground as interest rates trend higher.

The 4th quarter of 2013 was practically a microcosm of the entire year, reflecting the momentum and trends of previous quarters. Domestic U.S. stocks rallied throughout the period, with many of the broad indices generating gains of 25% to35% for the year. Foreign stocks were a mixed bag but generally lagged the U.S. market. Japan along with developed markets in Europe posted solid gains, but stocks in emerging markets as a whole were down in 2013. Developing countries were buffeted by weaker commodity prices, slower global growth rates, bouts of political instability and higher inflation.

The pattern of growth around the world is uneven, but the major economies of the world – the U.S., Europe, Japan and China – are all moving in the right direction. In fact, 2014 could represent the first year of synchronized global growth since the recession of 2008.

The U.S. economy appeared to feel few effects of the 16-day federal government shutdown in October. In fact, data suggests the economy was gaining momentum at the end of the year, including an upward adjustment of 3rd quarter Gross Domestic Product to a 4.1% annualized growth rate.

The Federal Reserve seemed convinced of the economy's strength, choosing to carefully begin it's "tapering" of bond purchases, reducing them from $85 billion to $75 billion per month. The Fed's actions may push interest rates higher this year, another challenge for bonds. Expect monetary policy by the Fed and other central banks to have a significant influence on investment markets in 2014. With the Fed starting to pull back but banks in Japan and Europe being more active, the stage is set for different outcomes for asset classes in 2014.

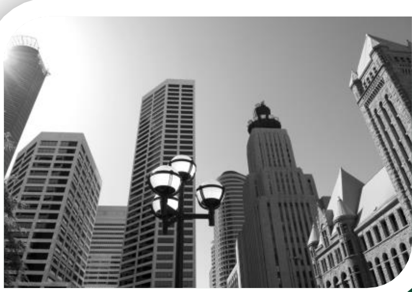
BOB'S CORNER

MONEY MYTHS

As the year 2013 comes to an end I want to continue to help current and prospective clients to understand what really the TRUTH is when it comes to Wealth Management.

Money Myths by All Star Financial as heard on WCCO Radio every Tuesday & Thursday at 6:46am is intended to dispel those age old thoughts on issues that can make a huge impact on your life. Should I work with a broker or a no commission advisor? Why do so many people think Index Investing is the path to take? Should I take social security as soon as I am eligible? Why are annuities so popular as an investment vehicle?

Please go on to our website and click on Money Myths. Remember; when in doubt- check it out! Then send an email to a friend, they need to know the truth!



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.

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

ECONOMY

Amid progress, structural issues still remain

All signs point to the likelihood that the U.S. economic recovery is becoming more self-sustaining and won't require as much Fed intervention going forward. The 4.1% rate of GDP growth in the 3rd quarter exceeded expectations. The housing market continues to strengthen, providing support to manufacturing and durable goods orders.

The increase in economic activity led to more hiring. By the end of 2013, the unemployment rate dropped to 7.0%, more than a half-percent below its level at the start of the year. The economy added only marginally less than 200,000 jobs per month through the last three months, a range considered necessary to create a more rapid economic recovery.

But many structural issues remain. The Federal Reserve continues its bond purchase program, but appears determined to slow its commitment. With the term of Ben Bernanke as Fed Chairman ending, and Janet Yellen taking the helm, the Fed is likely to remain involved until job growth appears to be stronger. The Fed would also like to see the labor participation rate (those looking for work) recover. It is clear that the Fed is still concerned about the long-term health of the economy.

Looking Ahead

We enter 2014 with an economy growing faster, unemployment drifting down and inflation still well below the Fed's target range of 2%. With little immediate inflation risk, the Fed has room to maintain low interest rates to help preserve the gains we've seen in housing and the job market. Corporate profits, margins and cash levels are near all-time highs. This has led to higher business spending (up at a 4% to 5% annualized rate in recent quarters). Still, business confidence is not where it should be, as we need more significant increases in business investment to move the economy forward. Our expectation is for the U.S. economy to grow at about a 3% rate in 2014, reasonable, but hardly spectacular.

BOND MARKET

Stability overall, rates trend higher

Bond markets as a whole were relatively stable for the final three months of the year. Most sectors of the market generated modest gains for the quarter. High-yield bonds (3.6%) led the way, with corporate bonds following (1%).

With yields on the benchmark 10-year U.S. Treasury note rising from 2.62% to 2.92%, government bonds lagged behind the rest of the market. Both long-term government bonds and Treasury Inflation Protected Securities (TIPS) declined 1% during the period.

After years of pouring money into bonds, investors began to take money out of the market in 2013. As a result, the yield on the 10-year Treasury rose more than 1% for the year, resulting in 6% to 9% declines among long-term government bonds, TIPs and corporate bonds.

Yet some favorable aspects exist in the bond market. On the corporate side, default rates on bonds remains historically low. Municipal bond issuers appear to be more stable as tax revenues and state and local levels are on the rise. Corporate bond issuance in the U.S. exceeded $1 trillion in 2013, a record pace. Emerging market issuance exceeded $500 billion, itself a record. It demonstrates how issuers are seeking to lock in low rates while they can.

Looking Ahead

Interest rates are likely to trend higher in 2014, though not as dramatically as was the case in the previous year. Still, investors should take a cautious approach to bonds in the coming months as rising rates can detract from bond prices.

There are segments of the bond market that offer some protection from rising rates. Shorter duration bonds mature quickly and those dollars can be reinvested in bonds paying higher yields if rates rise. Yields on floating rate bonds adjust with changes in interest rates. Diversifying globally can also help, as bond markets elsewhere don't necessarily track with the U.S. market. Our current bond allocations include all of these components to help temper the impact for our investors.

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

DOMESTIC STOCK MARKET

The year ends like it began, with a bang!

U.S. stocks added to an already strong year with additional gains in the 4th quarter. The Russell 3000 Index, measuring the performance of the stock market as a whole, gained 10% in the final three months, generating a total return of 34% for the year.

Stocks gained broadly across all styles and industry sectors during the quarter. Growth stocks returned 10.3%, narrowly outperforming Value stocks. Cyclical growth sectors benefited from encouraging economic data. Among the leading sectors were Industrial stocks (13.1%) and Technology issues (12.8%). The more defensive sectors, including Utilities and REITs, were out of favor and managed gains of just 3%.

Corporate profits rose 5% during the 3rd quarter and are projected to be up 6% for the year. Profits, gross margins and cash levels remain near all-time highs. While profit growth has slowed, investor fund flows are rotating from bonds to stocks, helping to send stock prices higher.

Looking Ahead

The environment has been very favorable for corporations with inflation under control and interest rates remaining low to help capitalize further growth. Earnings continue to rise. We expect another record quarter when 4th quarter earnings are reported, and analysts anticipate a 10% rise in earnings in 2014.

But it isn't realistic to expect a rerun of 2013's results for the stock market. Valuations for U.S. stocks are approaching or surpassing long-term averages. The market has gone a long time without a healthy correction of 5% or more, and any disappointing news could result in a temporary setback. Investors should keep their expectations in check for 2014, though in general, the environment at this point remains favorable for stocks.

INTERNATIONAL MARKETS

A mixed picture and lagging U.S.

As has been the case all year, results were mixed across the globe but lagged the returns generated by U.S. stocks. The broad MSCI EAFE Developed Market Index was up 5.7% during the 4th quarter and gained 22.8% for the year. The MSCI Emerging Market Index managed a 1.8% gain in the 4th quarter but lost 2.6% for the year.

Europe was the strongest sector among developed markets, rising 7.9% in the 4th quarter and 25.7% for the year. Improving economies in the region and the fading of Europe's debt crisis worked in investors' favor. Export growth is boosting Europe, particularly Germany's economy. Unemployment remains at an unacceptable 12% level in the region, but the main economies of Germany, France and the United Kingdom are growing. The European Central Bank lowered interest rates in the 4th quarter to support ongoing growth.

In Asia, both Japan and China are taking steps to boost their economies. Japan's central bank is focused on ending deflation and spurring growth while investing in infrastructure to generate jobs and corporate profits. Stocks in Japan, up solidly earlier in the year, rose just 1.8% in the 4th quarter. China's restructuring is on track to achieve a 7% annual growth rate, but weakness in local finances and property markets tempered stock returns in recent months. Asian stocks ex-Japan gained just 1% for the quarter.

Emerging markets broadly lagged both U.S. and Developed markets during the quarter and for the year. The long-term growth story for most of these countries remains strong, but major reforms in China, inflation in Brazil and India and political turmoil in Russia, Turkey and Thailand took a toll on market performance in 2013.

Looking Ahead

International stock markets have lagged U.S. markets for several years, but 2014 could be the year when this trend reverses itself. From a valuation standpoint, overseas stocks generally look more attractive than U.S. stocks. In addition, dividend yields for stocks in developed and emerging markets are higher than the current dividend yield on the average domestic U.S. stock.

Central banks around the world are moving aggressively to stimulate growth. Both Europe and Japan are in the early stages of their recoveries, meaning their best returns may be yet to come. Emerging markets, for all of their struggles in 2013, have lower levels of government debt, higher trade surpluses and growing middle class populations, so ultimately, this should prove to be beneficial for investors.

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	0.48	-0.35	0.49	0.79				
Balanced	0.59	-0.36	0.58	0.97				
Cons Growth	0.69	-0.49	0.71	0.25				
Growth	0.77	-0.35	0.81	0.11				

Beta & Alpha (vs. Global BMI)

Market Index	4th Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	10.22	29.65	15.71	16.74
S&P 500	10.51	32.29	16.18	17.94
Russell 2000	8.72	38.82	15.67	9.07
S&P Mid Cap 400	8.33	33.50	15.64	21.89
Russel 3000	10.10	33.55	16.24	18.71
S&P Global BMI	**7.27**	**24.12**	**10.30**	**16.30**
MSCI EAFE	5.71	22.78	8.17	12.44
MSCI Emerging Mkts	1.83	-2.60	-2.06	14.79
NASDAQ Composite	11.10	40.12	17.74	18.59
Barclays US High Yield Bond	3.58	7.44	9.32	18.93
Barclays US Aggregate Bond	-0.14	-2.02	3.26	4.44
Barclays Global Aggregate Bond	-0.44	-2.60	2.39	3.91
JPM Emerging Local Mkts Bond	-0.16	-2.04	-0.07	3.33
Barclays US Government Bond	-0.69	-2.60	2.70	2.26
Barclays US Credit Bond	0.92	-2.01	5.11	7.89

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

SUMMARY

Five years after the 2008 financial crisis and recession, the Federal Reserve is able to begin unwinding its extraordinary monetary experiment with some claim of success. The U.S. economy has recovered more quickly than those of Europe or Japan. The domestic stock market has reached new heights and the Fed remains committed to job growth and a solid housing market going forward.

The key for investors is to remember the benefits of diversification and to avoid following the crowd in 2014. While U.S. stocks may draw more investment flows on the strength of their recent performance, we believe international stocks offer a better opportunity going forward. Europe and Japan are contributing to global economic growth again, and we could be on the verge of a global economy that will expand across regions.

Diversified portfolios may not outperform specific markets in a given year, but they tend to perform better over time. During the last decade, emerging market stocks led all other asset classes and both the MSCI EAFE and Asset Allocation portfolios outperformed the S&P 500 during the same period. Over time, you need diversification to succeed as an investor, and this might become more apparent in 2014.

Keep the Value of Diversification in Focus

The idea of diversification is almost like a form of insurance for investors, protection against losing all of your money in a single investment or asset class if the market turns sour. Investors should view diversification the way they do insurance – something they don't need until they actually need it.

To be clear, diversification is not a panacea for investors. It is not a "get rich quick" scheme, the latest investment fad or a guarantee that your portfolio will never lose money. As 2013 proved, it certainly can't assure that your portfolio won't underperform a specific stock, mutual fund, asset class or index over a short period of time.

But diversification is a critical tool for long-term investment success in what we all know is an unpredictable world. We can't determine in advance which asset classes will perform well in any given year. The best evidence of this is the chart below that shows annual returns for different asset classes over the past decade. As it demonstrates, there is not an easily discernible pattern and performance varies widely from year-to-year.

Insuring your portfolio

Because we cannot predict when we will die, we buy life insurance. Because we cannot predict when a car accident may occur, we purchase auto insurance. In the same manner, we can't predict which asset class will perform best in the next year, so we diversify.

While premiums are paid for insurance coverage, in the case of diversification the premium is the opportunity cost. You may give up some performance in a specific investment or asset class over a period of time to maintain the protection that diversification provides.

For example, investors who choose to diversify may give up riding Apple shares from $360 to nearly $700 per share in just 18 months or full participation in the stock market's 30% rise in 2013. The reason is to ensure that the portfolio won't become the next Lehman Brothers, Greece, Enron, Bear Stearns, Detroit, General Motors and so forth.

Diversification is less enticing during the kinds of bull market we've enjoyed in the past five years. Investors can lose patience watching a diversified portfolio inch forward at the same time the stock market is cruising to record highs, just as insurance premiums seem to be a waste if you don't file a claim. But, diversification isn't meant to protect during sunny skies. It's fundamentally designed to protect investors when they need it most, during those periods when the waves get rough, like the two severe bear markets that occurred in the first decade of the 2000's.

We head into the New Year unaware of what the future might hold. Investment discipline is as important as ever. Investors need to remember that **"diversification is one of those things that isn't needed – until it is."**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	10 Yr Comp Ave
Best	Emerging Mkts 25.55	Emerging Mkts 34.00	Emerging Mkts 32.14	Emerging Mkts 39.42	Interm-Bond 5.24	Emerging Mkts 78.51	Small Caps 26.85	Interm-Bond 7.84	Emerging Mkts 18.22	Small Caps 38.82	Emerging Mkts 11.17%
	Foreign Small 24.31	Foreign Small 15.71	Foreign Large 26.34	Foreign Large 11.17	World Bond 4.79	Foreign Small 44.12	Foreign Small 26.13	World Bond 5.64	Foreign Small 17.55	S&P 500 32.39	Foreign Small 9.51%
	Foreign Large 20.25	Foreign Large 13.54	Small Caps 18.37	World Bond 9.48	Cash 1.50	Foreign Large 31.78	Emerging Mkts 18.88	S&P 500 2.11	Foreign Large 17.32	Foreign Small 29.3	Small Caps 9.07%
	Small Caps 18.33	Asset Allocation 6.99	Foreign Small 17.2	Interm-Bond 6.97	Asset Allocation -27.40	Asset Allocation 27.53	S&P 500 15.06	Cash 0.03	Small Caps 16.35	Foreign Large 22.78	S&P 500 7.41%
	S&P 500 10.88	S&P 500 4.91	S&P 500 15.79	Asset Allocation 5.77	Small Caps -33.79	Small Caps 27.17	Asset Allocation 10.98	Small Caps -4.18	S&P 500 16.00	Asset Allocation 14.11	Foreign Large 6.91%
	Cash 9.52	Small Caps 4.55	Asset Allocation 10.07	S&P 500 5.49	S&P 500 -37.00	S&P 500 26.46	Foreign Large 7.75	Asset Allocation -5.42	Asset Allocation 11.58	Cash 0.06	Asset Allocation 5.37%
	Asset Allocation 9.52	Cash 2.94	World Bond 6.64	Cash 4.51	Foreign Small -41.88	World Bond 6.93	Interm-Bond 6.54	Foreign Small -9.06	World Bond 4.32	Interm-Bond -2.02	Interm-Bond 4.55%
	World Bond 9.27	Interm-Bond 2.43	Cash 4.76	Foreign Small 0.79	Foreign Large -43.38	Interm-Bond 5.93	World Bond 5.54	Foreign Large -12.14	Interm-Bond 4.21	World Bond -2.60	World Bond 4.46%
Worst	Interm-Bond 4.34	World Bond -4.49	Interm-Bond 4.33	Small Caps -1.57	Emerging Mkts -53.33	Cash 0.11	Cash 0.13	Emerging Mkts -18.42	Cash 0.06	Emerging Mkts -2.60	Cash 0.02

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 of you in the Twin Cities looking for a fun new place to try during this cold weather, we recommend **Mill Valley Kitchen**. It is located on Excelsior BLVD in Minneapolis and offers food inspired by Northern California. They use local ingredients and provide nutritional information for all dishes. We recommend trying one of their flatbreads or the grilled Atlantic salmon. Let us know what you think!

Josiah's Family Recipe

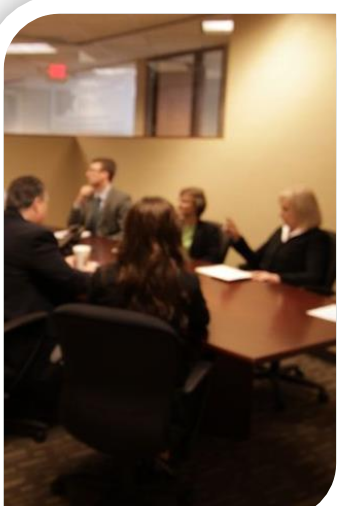
Scrambled Egg Casserole:

6 eggs, beaten
8 slices bread
3 cups milk
½ c. cheddar cheese
½ tsp dry mustard
½ tsp salt
2 c. chopped ham
¼ c. butter

Beat eggs well. Add milk, salt & mustard and beat. Layer the bread, cheese & ham in a well-greased casserole. Layer ½ the ingredients and pour ½ the liquid over. Then layer the remaining ingredients and pour in the rest of the liquid. Pour butter over the top and sprinkle with some cheese.
Bake for 1 hour at 350° uncovered.

Quote of the Quarter

"Character is the ability to carry out a good resolution long after the excitement of the moment has passed."
–Robert Cavett



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