



2008 – 1ST QUARTER REVIEW AND PREVIEW



THROUGH CHALLENGING MARKETS, PATIENCE IS REQUIRED

MARKET OVERVIEW

The 1st quarter of 2008 marked the worst start for the stock market in 7 years. Investors remained concerned about the potential for continued fallout from problems related to subprime mortgages and general weakness in the housing market. Fear clearly took a foothold through most of the opening three months, and by the end of March, the stock market had declined in five consecutive months.

One of the most troubling issues is whether credit will be readily available to businesses and consumers. Without it, the economy could face more severe difficulties. A major event in March punctuated the fear looming over the market as the Federal Reserve stepped in to support a buyout effort by J.P. Morgan of the highly-regarded investment bank Bear Stearns. Bear's potential insolvency was avoided for now, but the Fed's actions were viewed as extreme from a historical perspective.

Amidst turmoil in the markets, the U.S. economy is considered by many analysts to be in a recession at the present time. This has added even more uncertainty to the markets. Along with its role in helping avert the failure of Bear Stearns, the Fed has focused significant efforts on keeping liquidity in the financial markets. Among other steps, it lowered short-term interest rates on three different occasions in the 1st quarter, from 4.25% to 2.25%. The Fed also injected \$400 billion into the banking system, trying to encourage more bank lending activity to help spur the economy.

Congress and the Bush administration agreed on a tax rebate plan that will result in the government sending checks in the amount of at least a few hundred dollars for a majority of taxpayers and even some who did not pay taxes in 2007. Initiatives are also being considered to help anxious consumers and hard-hit homeowners, along with talk of a significant overhaul of the oversight structure to the financial system.

While many welcome government action in light of recent events, the impact will not be immediate. However, some benefit should occur in the near future and global demand for exports may continue to lay the groundwork for a stock market recovery as 2008 progresses.

ECONOMY

THE 1ST QUARTER

Sluggishness in the economy was visible in a number of areas. While the decline in residential construction was prominently negative, retail sales fell 0.6% in February, the second decline in three months. Consumer confidence as measured by the Conference Board reached its lowest level since 1993. Americans are faced with higher food and energy prices just as the value of their home was declining 11%, on average, over the past year.

Adding to the concerns was a hard reality in the jobs markets. Payrolls declined for the first two months of 2008. Workers faced wage increases that barely kept pace with inflation. Driven by higher food and energy costs the Consumer Price Index, the primary measure of inflation, continued to rise at an annualized rate of more than 4% in the 1st quarter. Producer prices, measuring inflation at the wholesale level, are up more than 6%.



BOB'S CORNER

“YOU MAKE MONEY IN A BEAR MARKET, IT JUST DOESN'T FEEL LIKE IT!” – Shelby Davis

As we talked about in our last newsletter, we are going through a part of the cycle that is not very enjoyable. When the market goes down -9.52% it's hard to feel good about losing -5% like our average portfolio did this 1st quarter of 2008.

This is the time to be patient, however, and understand that you can really create wealth quickly by buying bargains at the right time. Our four portfolios have between 30% to 60% in cash and bonds. We are poised to jump at the buying opportunity ahead of us. It may be 4 months or as much as 12 months from now, but we honestly feel like we are positioned very well!!

That brings me to my last point and that is to say – If you have any excess cash laying around, please give us a call. Now is the time to add it to your portfolio so we are prepared to buy bargains. We will not charge you a fee on any new cash money until it is fully invested.



Business investment spending dropped as well. Overall, consumer spending was essentially flat, rising 0.1% in February. Industrial production was off during the month and the measure of factory activity, based on capacity utilization, fell below 81% for the first time since 2005. Durable goods orders and the backlog of new orders both declined, typically not a good sign for the direction of the economy.

The only question is whether, by technical measures, the U.S. economy is actually in a recession at this time. The official measure (two consecutive quarters of negative growth in the Gross Domestic Product) won't be known for some time, but all signs make it relatively safe to assume that our economy **is in a RECESSION**.

LOOKING AHEAD

The primary indicators of future economic activity seem to point to a weaker stretch for the economy in the months to come. The Conference Board's index of leading economic indicators has declined for five straight months. The Economic Cycle Research Institute (ECRI) Weekly Index has declined at an annualized rate of 10%, and has run in negative territory for 30 consecutive weeks. This is similar to what occurred in the prelude to prior recessions. Moody's rates the risk of recession at 62%.

Good economic news has been in short supply lately, but there have been a handful of bright spots. The Fed has been extremely aggressive in cutting short-term interest rates a full 3% since September. Eventually, the Fed's work should provide a boost to the economy, but the timing of that uptick is difficult to predict. The tax rebate program will begin to inject money into consumers' pockets starting in May should also provide some benefit. Exports are also a bright spot for the economy. Some of which is attributed to rapid economic growth overseas, but the most notable factor is the extreme weakness of the dollar. This makes it cheaper for foreign buyers to purchase goods and services from the U.S.

Since World War II, recessions have lasted, on average, 7 months. This would mean we are already halfway through the current recession, assuming it started in December. We do not believe this will be an average recession. Look for a little longer than average economic downturn due to the severity of the subprime and real estate market concerns. On a positive note, if it is normal we could be closer to the end of the current economic slowdown than the beginning.

BOND MARKET

THE 1ST QUARTER

With credit markets embroiled by liquidity problems, the 1st quarter proved to be a turbulent one. The Federal Reserve's intervention on behalf of Bear Stearns in late March illustrated the strain that the bond market faced. New issues continued to dry up for asset-backed bonds and commercial paper, forcing companies to rely on more traditional lending sources. Many short-term bond funds that invested heavily in these securities were particularly hard hit with a number of funds suffering unexpected double-digit declines in the quarter.

Despite the market's volatility, the Lehman Aggregate Bond Index, a broad measure of the market, returned 2.3% in the 1st quarter. World bonds gained 5.0%, due in large part to dollar weakness, which boosts net returns of overseas holdings. With inflation concerns on the rise, Treasury Inflation Protected Securities (TIPS) gained 4.8%. Government bonds rose 4.1% as investors showed a preference for higher-quality issues. Bank loan and high-yield bonds were hardest hit by the environment, with declines of 5.6% and 3.5% respectively for the quarter. Municipal bonds also lost 1.1%. The only risky bond category to show gains were emerging market bonds, up 0.6%.

LOOKING AHEAD

The bond market's challenges have also created pockets of opportunities. This includes particularly favorable pricing for government agency mortgage bonds and emerging market bonds. Foreign issues are likely to continue benefiting from the dollar's weakness. By the end of the 1st quarter, tax-free municipal bonds were offering yields higher than those available from Treasury securities, creating another value opportunity.

DOMESTIC STOCK MARKET

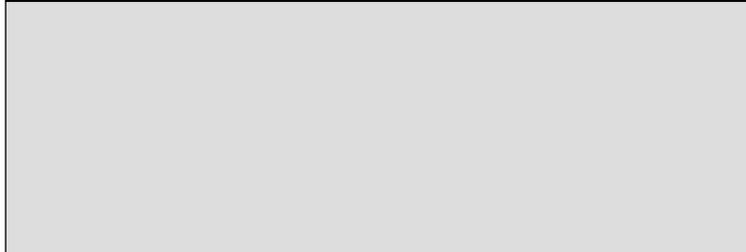
THE 1ST QUARTER

The 1st quarter was the worst for domestic equity markets since 2002. The broad Russell 3000 Index fell 9.5% for the period, while the technology-heavy NASDAQ Index declined 14.1%. The financial sector was hard hit (-13.8%) with continued huge write-offs of bad investments related to subprime mortgages. Virtually all 10 industry sectors were down for the three-month period. Consumer staples (-2.9%), materials (-4.2%) and industrials (-5.0%) were actually the three strongest-performing sectors. Growth sectors such as technology, healthcare and financials all were down 10% or more for the quarter. The stock market's problems carried across all market capitalization levels. Micro-cap stocks dropped 12.4% and mid-caps were off 10.0% to represent the two weakest categories, but small- and large-cap stocks barely fared any better, both down more than 9.0%



Performance Update

Annualized Returns



Market Index	1st Qtr	YTD	1-Year	2-Year	5-Year
DJ Ind. Average	-6.81	-6.81	1.62	7.54	11.50
S&P 500	-9.47	-9.47	-5.18	2.97	11.29
Russell 2000	-9.90	-9.90	-13.00	-4.01	14.90
S&P Mid-Cap 400	-8.85	-8.85	-6.97	0.44	15.10
Russell 3000	-9.52	-9.52	-6.06	2.24	12.07
MSCIEAFE	-9.53	-9.53	-5.07	5.61	18.12
NASDAQ Comp.	-14.07	-14.07	-5.89	-1.31	11.19
Lehman High-Yield	-3.02	-3.02	-3.74	3.64	8.62
Lehman Agg. Bond	2.17	2.17	7.67	7.13	4.58
Lehman Credit Idx.	0.43	0.43	3.99	5.53	4.43
Lehman Gov. Bond	4.05	4.05	11.45	8.66	4.71

While no aspect of the U.S. stock market was safe from the first quarter's decline, companies in the energy, technology and healthcare sectors continue to demonstrate significant profit growth, due in large part to the boost from export revenues. These sectors could be poised for a recovery later in 2008.

LOOKING AHEAD

After a year in which large-cap stocks outperformed small-cap issues, the environment may have changed for the near term. Small-cap stocks appear more attractively priced again. Growth stocks also may be more favorably positioned than value issues, as many growth companies stand to benefit from the potential export growth created by the weak dollar. The financial sector looks attractive compared to the rest of the market.

Our general view for stocks is one of caution in the short run. Still, the market has lost 18% in the last two quarters, already a significant drop. This may reflect that investors have priced in most of the bad economic news that may yet develop. One favorable sign is that the current Price/Earnings (P/E) ratio for stocks is the lowest in a decade, and real interest rates are as low they have been in 20 years.

INTERNATIONAL MARKETS

THE 1ST QUARTER

Problems that originated in the U.S. were felt overseas in the 1st quarter. Global ex-U.S. stocks lost 9.5%. No region managed a positive gain, though Latin American issues were down just 2.3%, as the region is benefiting from rising consumer demand and strong exports. Asian stocks lost 10.4%. The biggest blows came to the two "tigers" of emerging markets today. China was down 24.7% while India lost 28.6%. Both markets had experienced rapid price gains in recent years.

LOOKING AHEAD

Although emerging markets are always volatile, we remain positive about their potential in the coming months. Asia (ex-Japan) and Latin America offer the greatest promise. We also believe markets in China and India will bounce back, as both economies are growing and companies are less dependent on the U.S. economy to fuel their growth. While European economies are likely to slow, they should remain more attractive than the U.S. market in the near term.

Market fundamentals took a back seat to a general negative psychology in the 1st quarter, driving stocks down globally. We do expect fundamental factors to return to the forefront. That should put international issues in a favorable position through the rest of 2008.

SUMMARY

While the headlines remain overwhelmingly negative for investors (recession, financial crisis, housing market meltdown), it is more important than ever to maintain a patient, long-term outlook. While there is short-term pain, history provides us with important points of perspective, including:

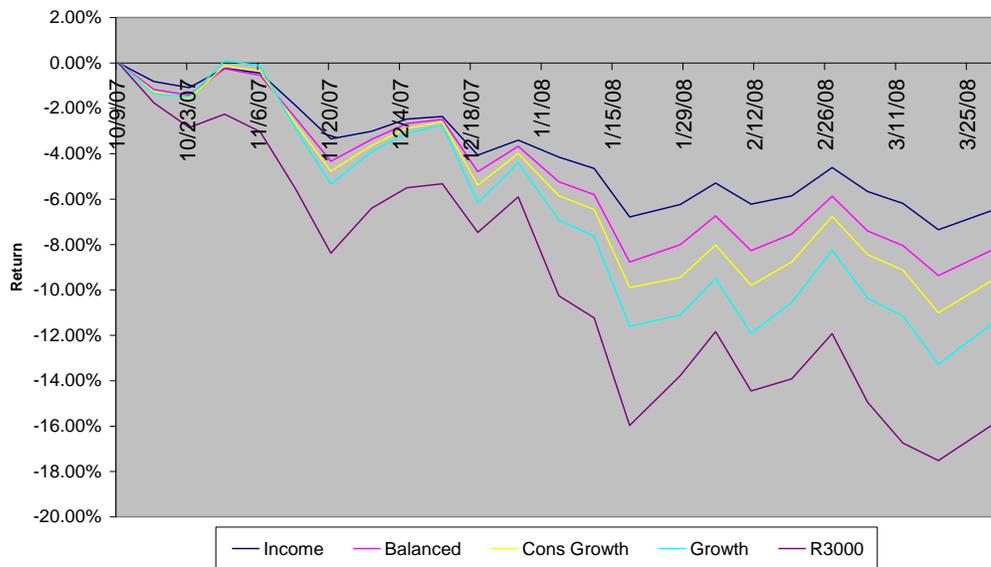
- 1.) Stocks have been the single best asset class for building wealth over time
- 2.) Stock valuations are among their most attractive in 25 years (as measured by earnings yield vs. bond yield)
- 3.) Global economies continue to grow twice as fast as the U.S. economy.

The message for our long-term investors is that we will continue to emphasize equities at the appropriate time with more international diversification in your portfolio than ever before.



“It’s Not How Much You Make, It’s How Much You Keep”

How much did you keep since the market peak?



All Star Portfolios Since 10-9-07

Income	-6.39%
Balanced	-8.10%
Conservative Growth	-9.39%
Growth	-11.25%
Russell 3000	-15.75%
Nasdaq	-18.72%

Tactical changes that we have made over the past 22 months in preparation and response to changing economic conditions and market valuations:

- 1) Trimmed small cap exposure (May 2006)
- 2) Removed biotech and technology exposure (July 2006)
- 3) Removed Domestic small cap stocks from portfolios. (September 2006)
- 4) Removed substantially all financial sector exposure from portfolios (Nov 2007)
- 5) Removed International small cap exposure due to valuations (Dec 2007)
- 6) Trimmed both domestic and international equity exposures (Jan 2008)
- 7) Removed Schwab Yield Plus bond fund due to credit issues (Jan 2008)
- 8) Reinstated commodity allocation (Jan 2008)
- 9) Increased cash allocation (Jan 2008)
- 10) Added foreign/municipal bond allocations (Jan 2008)

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