ALL STAR FINANCIAL
Build Wealth. Retain Wealth.

QUARTERLY REVIEW & PREVIEW

SECOND QUARTER 2013

VOLUME 19 ISSUE 2

Slow Ride... Take it Easy

Market Overview

Those with memories of classic 1970s rock and roll will likely recall the hit song "Slow Ride," by the British band Foghat. The title seems to be an appropriate description of the current economic environment. Growth continued at a stubbornly slow pace across the globe in the 2nd quarter. Although economic news may have been unspectacular, the stock and bond markets suddenly became a lot more exciting in the last half of the quarter. The level of volatility was particularly amplified after the Federal Reserve (the Fed) indicated in June that it is looking forward to being able to bring an end to its aggressive monetary policy and bond purchasing programs. While a dramatic market selloff was the initial reaction, by the end of June, it became apparent that no major changes to Fed policy were imminent, and the market rebounded.

It is clear that the Fed and other central banks are still trying to spur more growth. The most recent estimate of 1st quarter Gross Domestic Product growth in the U.S. was downgraded to an annualized rate of 1.8%, from the earlier 2.4% estimate. The economy is expected to track near that pace in the coming quarters. Europe remains mired in a recession with uncomfortably high unemployment levels. Japan's new monetary initiatives boosted 1st quarter growth, but expectations are limited going forward. Emerging markets continue to deliver the fastest levels of growth, but those rates have slowed in the past year.

We've seen stock markets recover most if not all of the ground they lost between 2007 and 2009. The big question now is whether the necessary fiscal and structural reforms will occur to assure a truly healthy global economy emerges in the coming years to support a continuation of that favorable trend for stock investors.

BOB'S CORNER

As we close another quarter of extreme ups and downs, I want to continue to remind everyone that it is truly **"Not how much you make, it is how much you keep!"**

In the second quarter alone, the domestic market (Russell 3000) had 10 down days of more than 1.0%. The composite average of our 4 portfolios recorded only 2 down days of more than 1% over the same time period. As the global markets continue to act more in concert, we continue to keep more than the market takes!

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 passionate about our commitment to reduce risk while still achieving your goals.

ECONOMY

Searching for Better News

Little changed with the broad economic picture in the 2nd quarter. In the U.S., the Fed's low interest rate policies are having the desired effect on a number of industries. Housing, after being the largest drag on the economy for years, is now the fastest growing sector of the economy. Sales of new homes have risen 29% through the first five months of 2013 compared to the same period in 2012 while existing home sales jumped 14%. Home prices are on the rise as well.

Another beneficiary of the Fed's policy is the automobile industry. Auto sales have risen 10% year to date. The banking sector is healing as well, with mortgage lending on the rise and delinquencies down. An uptick in consumer and business lending are also likely to be beneficial to the economy.

The broader U.S. economy, however, is still growing very sluggishly. Unemployment remains frustratingly high at 7.6%, far above what is considered the "full employment" rate of 5%. On the other hand, the tepid rate of growth has helped to keep inflation in check at less than a 2% annualized rate.

Looking Ahead

The path to a sustained recovery starts with increased business spending and hiring. This would lead to healthier consumer spending and ultimately, an economy that is fully back on track.

The fears that federal budget sequester cuts and new taxes would send the economy into recession were not realized. The federal budget has improved, with the annual deficit dropping from 8% of annual GDP to 4%. This led Standard & Poor's to upgrade its credit outlook for the U.S. Unfortunately, Congress continues to "kick the can down the road," when it comes to agreeing on any major fiscal reforms.

America's energy renaissance is one of the most exciting stories for the domestic economy. Thanks to the North Dakota boom, oil production is adding jobs and reducing America's reliance on imported oil. Growing supplies should help keep energy costs under control in the coming years.

BOND MARKET

Staying Ahead of the Fed

Markets are, by nature, forward-looking, but sometimes investors get ahead of themselves. Yields on bonds rose significantly beginning in early May, but took a big jump after the Fed's June 19th meeting. The yield on 10-year U.S. Treasury notes went from 2.17% before the Fed's meeting to as high as 2.66% in just a few days.

The trend of higher rates was seen virtually across the board along the yield curve and among different sectors. Long-term government bonds, Treasury Inflation Protected Securities (TIPS), long-term corporate bonds and emerging market bonds all declined between 6% to 9% on a total return basis during the quarter. Municipal bonds were down 4%. Mortgage-backed, global and high-yield bonds weathered the storm slightly better, but still declined modestly.

Looking Ahead

A growing consensus is emerging that the market's reaction to Fed comments was overdone. We expect some recovery in the bond market in the coming months, particularly in non-Treasury sectors. We believe bonds are still an appropriate investment in a diversified portfolio.

Underlying fundamentals for credit and bond sectors have not changed, only the prices of these securities have changed. Default rates are historically low, while corporate balance sheets remain strong and emerging market credits continue to be upgraded. One way investors can insulate themselves from rising interest rates is to invest in floating rate bonds and short duration bonds.

DOMESTIC STOCK MARKET

The U.S. Sets the Pace Globally

U.S. stocks outperformed most global markets during the 2nd quarter, although performance was modest compared to the dramatic gains achieved in the 1st quarter. Large cap stocks rose 2.3%, slightly outperforming the 1.6% gain in small cap stocks. Value stocks were in favor during the quarter, returning 2.8% compared to just a 0.9% return for growth stocks.

Financial stocks were the top-performing industry, with a 6.6% gain, due in large part to the housing recovery. Consumer discretionary stocks and health care stocks returned 5.5% and 4.4% respectively, led by stronger durable goods sales and a rebound in biotechnology stocks. The market was less kind to utilities stocks, which lost 3.2% during the quarter. Energy and material stocks were down as well, but only modestly. Although growth in corporate earnings and revenues has leveled off, there are a variety of factors supporting the upward trend in stock prices. These include favorable stock valuations, increased dividend payouts and significant stock buyback programs by some companies.

Looking Ahead

Entering the 2nd half of 2013, corporate earnings are expected to rise at a very modest pace of 3-4%. This could temper stock market performance through the rest of the year. Investors are likely to remain attracted to dividend-paying stocks given the limited expectations for market growth.

Growth stocks have underperformed in recent times and may be undervalued, particularly stocks in the technology sector. So far this year, a lull in product innovation and lackluster business spending has been a hindrance to this segment of the market.

Consensus forecasts call for a year-end pickup in the economy that would translate into improved earnings as well. That should certainly benefit small-cap and mid-cap stocks later in the year.

INTERNATIONAL MARKETS

A World of Question Marks

Global economic growth continues to be restrained by Europe's lingering recession. Given how markets across the world are connected, Europe's problems are having an impact on other regions. Unemployment in Europe remains at a record high of more than 12%, although there are variations across countries. Germany, for example, has an unemployment rate under 7%, lower than in the U.S. On the positive side, manufacturing indexes in Europe are indicating a slow turnaround from an extended negative trend.

Japan's economy has responded to "Bionomics," the fiscal and monetary policies being pursued at the urging of the nation's new prime minister. While Japan's stock market is up solidly for the year, it was relatively flat in the second quarter. Developed markets worldwide, as measured by the MSCI EAFE Index, declined 2% during the quarter.

The volatile emerging markets sector lost a whopping 12% during the quarter. Slowing growth in China, the world's second largest economy, contributed to the concerns. China's new leadership is trying to cool down overheated property and credit markets, but its actions seemed to have a negative impact on its own stock market and those of other emerging market nations.

Looking Ahead

History tells us that the 2nd half of the year tends to be favorable for investors in emerging markets. Sharp sell-offs occurred in the first half of 2004, 2006, 2010 and 2012, only to reverse course and deliver solid double-digit returns in the second half of each of those years. China may actively pursue more economic stimulus in the months ahead. Unrest in major emerging markets of Turkey and Brazil is likely to subside, which should contribute to an improved environment for stocks.

Early signs of bottoming in Europe may eventually give way to "green shoots" of economic growth in that region, the benefits of which would be felt globally. Likewise, investors are hopeful that the momentum generated in Japan can be maintained going forward.

PERFORMANCE UPDATE

The Second Quarter

Beta/Alpha	3 Yr Beta	3 Yr Alpha	5 Yr Beta	5 Yr Alpha	2nd Qtr	1 Year	3 Years	5 Years
Income	0.51	-0.47	0.44	2.51				
Balanced	0.65	-1.32	0.58	0.84				
Cons Growth	0.75	-1.28	0.68	0.35				
Growth	0.81	-1.24	0.78	-0.11				

Beta & Alpha (vs. Global BMI)

Market Index	2nd Qtr	1 Year	3 Years	5 Years
DJ Industrial Average	2.71	21.25	18.70	7.30
S&P 500	2.91	20.60	18.45	7.01
Russell 2000	3.08	24.21	18.67	8.77
S&P Mid Cap 400	1.00	25.18	19.45	8.91
Russel 3000	2.69	21.46	18.63	7.25
S&P Global BMI	-0.27	17.86	13.13	3.30
MSCI EAFE	-0.98	18.62	10.04	-0.63
MSCI Emerging Mkts	-8.08	2.87	3.38	-0.43
NASDAQ Composite	4.52	17.60	18.64	9.38
Barclays US High Yield Bond	-1.44	9.49	10.74	10.94
Barclays US Aggregate Bond	-2.32	-0.69	3.51	5.19
Barclays Global Aggregate Bond	-2.79	-2.18	3.55	3.68
JPM Emerging Local Mkts Bond	-6.06	1.24	7.85	8.63
Barclays US Government Bond	-1.88	-1.51	2.94	4.37
Barclays US Credit Bond	-3.44	0.84	5.47	6.97

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

SUMMARY

The word of the month in June was "tapering," a reference to the expected Fed strategy of winding down its quantitative easing programs. While tapering will certainly take place when the economy improves and unemployment falls, the Fed and other central banks are not ready to take their collective foot off the gas just yet.

While the markets can be highly reactive to short-term events (or non-events like the vague Fed pronouncements), we caution you to not let volatility create bad behavior. Research released by J.P. Morgan shows that while asset classes have returned anywhere from 4% to 10% over the last year, the average investor's return was just 2%.

This indicates individuals are not always invested in stocks when they should be, whether they have been too nervous to put money back to work in the market after the Great Recession or they panicked and sold after a downturn. The lesson is to not let fear and greed rule your investment process. Focus on owning a properly diversified portfolio that suits your comfort level over the long run. It's summertime. Take it Easy (Thank you for reminding us Foghat)!

The New All Star Financial Website

We're celebrating the summer of 2013 with a new look – both to our newsletter as you see here and to our website, www.allstarfinancial.com. We hope both make it easier for you to obtain meaningful information from us. We'd love your feedback, and if you have any questions about how to navigate our new website please give us a call. Enjoy the summer!

1. **Client Login:** You can easily access all of your account information through Fidelity and Schwab or using our new performance reporting software, BlackDiamond. Your tax return login is also here.
2. **Bob's Blog:** This is one of our favorite new features! Easily read through all of Bob's blogs and stay tuned for more frequent posts from all the members of the All Star team. There's also a search feature that lets you easily find relevant past blogs for whatever topic you're interested in.
3. **Refer a Friend:** If you'd like to refer a friend, then take advantage of the easy to use "Refer a Friend" button! Don't forget all referrals help reduce your costs.
4. **Receive All Star Updates:** If you don't already receive the Weekly Wrap, Bob's Blog, and Newsletter via email be sure to subscribe here to receive those updates automatically.
5. **Resources:** Here you can access all of our past Weekly Wraps, Newsletters, Webinars, and some useful links to financial calculators and other helpful websites!
6. **The All Star Difference:** Be sure to watch this great YouTube video describing the difference between a broker and independent advisors like All Star! Look for a video from the All Star team later this fall.
7. **Sliders:** These will be frequently updated with new content to help keep you informed! Be sure to check out the free Social Security report if you're considering taking Social Security in the coming years!

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 treat this summer, we want to recommend a great restaurant in St. Paul with a beautiful patio and relaxed atmosphere. **W.A. Frost** is a hidden gem in the Cathedral Hill neighborhood that offers a diverse selection of wine and locally sourced cuisine that will pique your appetite. Give it a try and let us know what you think.

Quote of the Quarter

"Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning." –Albert Einstein

Maren's Family Recipe

Claudia's Peach Pie

¾ cup boiling water
1 pkg (3oz.) peach flavored gelatin
2 cups ice cubes
1 ½ cups thawed whipped topping
2 cups or more of peeled peaches, sliced or chopped
One graham cracker pie crust

Add boiling water to gelatin mix in medium bowl; stir 2 min. until completely dissolved. Add ice cubes; stir until gelatin is slightly thickened. Remove any unmelted cubes. Add cool whip; stir until well blended. Gently stir in peaches.

Refrigerate 15 min. or until gelatin mixture is thick enough to mount; spoon into graham cracker crust. Refrigerate 2 hours or until set.

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