ALL STAR FINANCIAL
Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

SECOND QUARTER 2019
VOLUME 26 ISSUE 2

Interest rates fall as trade tensions rise, impacting growth outlook

The 2nd quarter was marked by momentous moves in the investment markets. Major stock market indices approached all-time records. At the same time, interest rates fell to their lowest levels since the election of President Trump. The drop-in rates reflects a level of uncertainty among investors as to how long the current economic expansion can be sustained. At the same time, the market continues to reward stocks that have performed well and look increasingly more expensive from a valuation perspective.

Another dramatic move during the quarter was an upsurge in the price of gold. It rose to $1395/ounce, up more than $100 for the quarter. That's the highest price since 2013. When investors move money into gold, it is seen as a defensive move in preparation of potential economic weakness. At the same time, reduced demand kept oil prices soft despite geopolitical tensions and supply disruptions.

The signals being sent by slumping interest rates and commodity price trends reflect concerns of slowing economic growth. A primary driver of those concerns has been ongoing trade tensions between the U.S. and China. The rate of growth in world trade, which was 5 percent in 2018, has remained flat so far in 2019. The implementation of new tariffs on goods and services has impacted trade, which is an essential part of the global economic engine.

All of these factors are weighing heavily on the Federal Reserve (the Fed) as it evaluates the direction of federal funds rate policy. This short-term rate sets the starting point for the yield curve. Since 2015, the Fed has raised the fed funds rate nine times. Now it is walking on a razor's edge to decide if rates need to be cut. The bond market is sending a clear signal that it anticipates the Fed will do so in the face of slower economic growth, despite the stock market's apparent ongoing optimism.

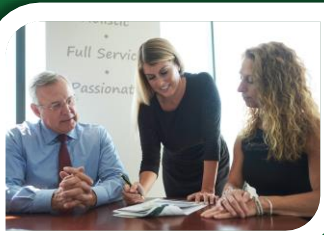
Bob's Corner

Good Luck and See You Soon Ms. Ashley

As all of you know All Star Financials president of first impressions, Ashley Kading is soon to deliver a beautiful big baby boy! Ashley and Chris have decided to move back to Green Bay where they both were born and raised. Having grandparents and sisters/brothers to help raise their child is important to them. We totally agree that family comes first!

The fantastic smile and warm 'hello' that Ashley greeted you with, weather it was on the phone or as you walked into our office, will be missed. Ashely became an integral part of our family at work, but her great work will have a lasting impression upon how we do "The All Star Financial Team" service model.

- Thank you, Ashley, and welcome Ms. Jessica Simmons (see page 6).
- Please call with any questions or concerns; we are here to listen.
- Have a great remaining part of the summer, and as always, we want to **THANK YOU** for trusting the All Star Financial Team!



BUILD WEALTH. RETAIN WEALTH.

All Star is passionate about providing strategies for a safer way to a successful retirement for people who are serious about their money but uncertain about how to nurture it.

The Economy

A record expansion

The economy's winning streak passed through a major threshold at the end of June. It has now lasted ten years (dating back to 2009). It represents the longest recovery on record since World War II. Despite its duration, the recovery has been disappointing in terms of cumulative Gross Domestic Product (GDP) growth compared to most expansions. Total cumulative GDP growth has totaled approximately 22% over the past ten years, compared to 40% to 50% growth rates for the most recent recoveries that began in 1981 and 1990.

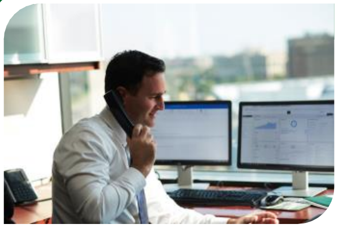
The economy grew at a rate of 3.0% for all of 2018, the fastest rate of growth since 2015. 1st quarter GDP growth was 3.1%, a positive sign for investors and economists. That rate may be difficult to maintain, as the consensus forecast is for a growth rate of 2.0% to 2.5% for all of 2019.

This puts the Fed in a difficult position in terms of setting interest rate policy. Ten years into the recovery, the fed funds rate stands at just under 2.5%, nearly 3% below its level before the last recession. This is not considered a "normalized" rate from which rate cutting should begin. Yet bond investors seem to be pricing in two interest rate cuts by the Fed.

But perhaps this is the "new" normal cycle. The Fed's mandate is to control inflation and maintain strong employment, and it has succeeded on both fronts during this economic expansion. Over the past year, inflation, based on the Consumer Price Index, was just 1.8%. The nation's unemployment rate declined to 3.7% in the 2nd quarter, its lowest level in more than 40 years!

Looking Ahead

After a decade of economic expansion, it seems reasonable to expect the economy to slow. The difficult question to answer is at what point slower economic growth could lead to a recession. The Federal Reserve Bank of New York's analysis estimates the probability of a recession in the next 12 months. It has increased from 10% at the end of 2018 to 29% today. We will continue to monitor economic trends in the coming months and weigh the prospects of a pending recession.



Bond Markets

Yields tumble!

Bond yields (interest rates) declined significantly in the 2nd quarter. The yield on the benchmark 10-year U.S. Treasury note lost about one-fifth of its value in the quarter, dropping from 2.47% at the start of April to 1.97% at the end of June. In the past nine months, the yield has declined from a level of 3.11%. Yields fell in other parts of the bond market as well.

A notable consideration is the shape of the yield curve. On March 22nd, the yield on the 3-month Treasury bill moved above that of the 10-year Treasury note for the first time since 2007. That inversion was sustained at of the end of the 2nd quarter as well. Three-month T-bills yielded 2.12% as June came to a close, still higher than the 2.0% yield on 10-year notes. This "inverted" yield curve is considered a possible indicator of a looming recession. Historically, recessions occur from 6 to 24 months after a yield curve inversion.

The Barclays Aggregate Bond Index returned 3.1% in the quarter and is up more than 6.1% year-to-date, benefiting from the decline in interest rates. That stands as a very strong return for bonds over such a short span, yet in the 2nd quarter, global bonds performed even better. The Barclays Global Bond Index gained 3.3%. Though yields are higher in most overseas markets, a strong dollar did reduce net returns to U.S. investors.

Looking Ahead

The big question in the bond market is how low can interest rates go? At present levels, bonds appear to be very expensive, as there seems to be little further room for rates to drop. This is unusual at this point in the economic cycle, a time when traditionally, investors are more likely to shift money from stocks to bonds as the threat of a recession grows. The risk-reward decision related to bonds has become much more challenging given the decline in rates over the past nine months.

Domestic Stock

All-Time Highs

U.S. stock markets generated their best performance over the first six months of the year since 1997. The Russell 3000 Index returned 4.1% in the 2nd quarter and is up 18.7% so far in 2019. These returns reflect a strong recovery after a devastating December 2018. It is also an indication that investors anticipate possible rate cuts by the Fed and a favorable resolution to the U.S.-China trade conflict.

Growth stocks led the market again, with the Russell 3000 Growth Index gaining 4.5%, compared to 3.7% for the Russell 3000 Value Index for the quarter. Large company stocks outpaced small-company stocks. The S&P 500 returned 4.3% compared to 2.1% for the Russell 2000 Small-Cap index.

Financial (+8.0%), Materials (+6.3%) and Technology stocks (+6.1%) were the top performing sectors during the quarter. Year-to-date, Technology stocks are up nearly 27.1%. On the other hand, Energy stocks fell 2.8% during the 2nd quarter and Healthcare stocks were up just 1.4%.

Looking Ahead

The stock market's solid start this year has boosted valuations (based on the price/earnings (P/E) ratio of stocks) to above average levels. Using the forward-looking P/E (based on projected future earnings), the P/E ratio for the S&P 500 moved from 18.2x in Dec 2017 to 14.4x in December 2018. Now it stands at 16.7x, slightly higher than the 25-year average of 16.2x. Contributing to the higher P/E is the decline in earnings growth that has occurred for S&P 500 companies in 2019. Earnings are still on the rise, but the rate of growth is expected to decline when 2nd and 3rd quarter earnings are reported. This will be a factor to watch in the months ahead.

Quote of the Quarter:

"Patience is the calm acceptance that things can happen in a different order than the one you have in mind."

-David G. Allen

International Markets

A world of uncertainty

International stocks generated positive returns for the quarter amid a variety of geopolitical concerns that weigh on performance. Issues such as ongoing trade disputes and the continuing saga of Brexit, Britain's planned departure from the European Union, create a degree of uncertainty for the markets. The MSCI ACWI Ex USA Index gained 3% in the 2nd quarter, lagging the return of U.S. stocks. Year-to-date, global stocks have risen 13.6% compared to 18.5% for S&P 500 stocks.

China's market has been on a roller coaster. After generating a scorching 54% in 2017, China's market reeled in the face of President Trump's trade war threats. The MSCI China Index declined 19% in 2018, but recovered some of that lost ground, gaining 13% so far in 2019.

European stocks returned 4.5% in the 2nd quarter. Markets seemed to react favorably to indications that the European Central Bank may cut interest rates to stimulate economic growth, particularly if there is fallout from Brexit. Emerging Markets struggled, generating a return of just 0.6% for the quarter.

Looking Ahead

International stocks continue to be more attractively valued than U.S. stocks, though they don't represent the bargain that they once did. P/E ratios stand at 13.6x for Developed Market stocks and 12.3x for Emerging Market stocks. This compares to 16.7x for U.S. stocks. The key question is how earnings will hold up in 2019. China is confronting a slower growth environment, but its government is taking steps to stimulate the economy. In Europe, Brexit remains a daily soap opera and most believe a fully united Europe would encourage more economic growth. Even with these and other challenges, international stocks represent an attractive investment opportunity and should be included in a diversified portfolio. Dividends may play an increasingly important role in the total return formula for stocks going forward.

Sources: All economic data is from JP Morgan's Guide to the Markets, June 2019 (https://am.jpmorgan. com/us/en/asset-management/gim/per/insights/guide-to-the-markets/viewer#/share-by-email) and all rate of return data is from Morningstar.com, unless otherwise noted by citation.

Performance Update

Second Quarter 2019

Market Index	1st Qtr	1 Year	3 Year	5 Year
MSCI ACWI All Cap NR	3.35	4.41	11.40	6.01
S&P Global BMI NR	3.37	4.42	11.38	5.99
MSCI ACWI Ex USA NR	2.98	1.29	9.39	2.16
Russell 3000 TR	4.10	8.99	14.03	10.19
S&P 500 TR	4.30	10.42	14.20	10.71
DJ Industrial Average TR	3.21	12.21	16.82	12.29
S&P MidCap 400 TR	3.05	1.36	10.91	8.02
Russell 2000 TR	2.10	(3.31)	12.31	7.06
NASDAQ Composite TR	3.87	7.79	19.58	13.97
MSCI EAFE NR	3.68	1.08	9.11	2.25
MSCI EM NR	0.61	1.21	10.67	2.49
Barclays Global Aggregate TR	3.29	5.85	1.62	1.20
Barclays US Government TR	2.99	7.21	1.39	2.48
Barclays US Credit TR	4.27	10.35	3.74	3.92
Barclays US Agg Bond TR	3.08	7.87	2.32	2.95
Barclays High Yield Corporate TR	2.50	7.48	7.52	4.70
JPM EMBI Global Diversified TR	4.08	12.46	5.48	5.30

*The above after-fee annualized total returns, betas, and alphas represent All Star Financial composite model performance. Your portfolio's actual returns, betas, and alphas may differ depending on your specific holdings and timing of cash flows.

Diversification, asset allocation, and value investing do not assure or guarantee better performance and cannot eliminate the risk of investment loss.

All Star Financial works on a "best efforts" basis and does not promise or guarantee any results. Past performance does not represent future results.

Summary & Overview

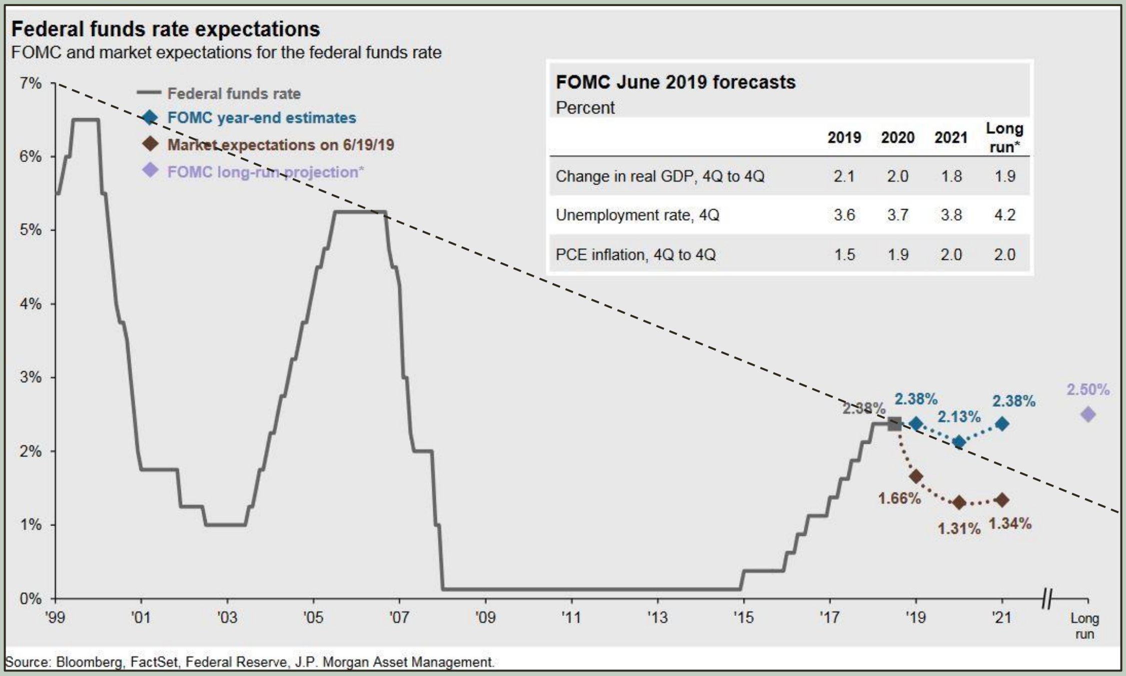
The first half of the year was a stunning success for both the stock and bond markets. It is unlikely that the second half of the year will result in a repeat performance, as the equity market valuations have become less attractive. Investors are particularly focused on external issues like trade negotiations and central bank policies. These factors will likely play a significant role in how stocks perform in the coming months. In the bond market, declining interest rates this year have increased prices already, which may leave little upside potential as the year progresses.

This is a time to remain well diversified!

We will focus on specific opportunities that offer the potential for performance advantages as the business cycle continues to mature. Be prepared for continued volatility as markets cope with a variety of external factors that could impact investor sentiment over the remainder of 2019 and into 2020.

"It's not how much you make, it's how much you keep!"
-Bobby K.

Interest Rates: *Where do THEY go from here?.....*



As you can see in this graph, the Fed Funds rate peaks have fallen over the last few cycles. It peaked at 6.5% in 2000, fell to 5.5% in 2006 and is now expected to peak at 2.5% in 2019. This graph also shows us where the Fed expects rates to be (dotted blue line) compared to the markets' expectations (dotted red line). These expectations have fallen drastically over the past three months in anticipation of economic growth decelerating. The market expects the Fed Funds rate will be 0.8% lower in 12 months than the Fed is predicting. This gap could create volatility for our economy and the markets.

WHO WILL BE RIGHT?

AND how will it impact MY portfolio?

							Q3 2019 Scenarios		
Asset Class:	**Q1 2018**	**Q2 2018**	**Q3 2018**	**Q4 2018**	**Q1 2019**	**Q2 2019**	**Rate Cut**	**Rates Hold**	**Rate Increase**
Cash	+	+	+	+	+	+	+	+	+
Bonds	-	-	-	+	+	+	+ / -	+ / -	-
US Stocks	-	+	+	-	+	+	+ / -	- / +	+ / -
Non-US Stocks	-	-	+	-	+	+	+	- / +	+ / -

The equity and bond markets have experienced significant volatility over the past six quarters, beginning in January of 2018. The chart above shows how cash, bonds, U.S. Stocks, and Non-U.S (International) Stocks have fared directionally in each quarter. A (+) sign indicates the asset class experienced positive total return in the quarter and a (-) indicates a negative total return. Predictably, cash is the most stable asset class. As we have written about in this newsletter, bonds have experienced unusual volatility over this period as rates increased early in 2018 and have reversed course the last three months. US Stocks have continued their historic climb, but experienced a 10% correction in both Q1 and Q4 of 2018. Non-US (international) stocks tracked similarly to US stocks but also declined in Q2 of 2018 as Trump expanded his trade war policies.

Looking forward to Q3 of 2019, we believe interest rates are going to most likely dictate how asset classes perform. The most anticipated scenario is an interest rate cut by the Fed. In that case, bonds should experience a positive total return, but the degree of the cut may already be built into the prices. US stocks could experience volatility depending on the rationale for the rate cut. International stocks may fare best because of a weaker dollar and better relative valuations. If rates hold and the Fed takes no directional action, there will be significant uncertainty and it is difficult to predict how assets will perform. The most unlikely scenario is a rate increase from the Fed. In this case bond prices would decline as yields rise and stock prices would have pressure from both directions. If the Fed raises rates because growth accelerates then stocks would experience positive returns, but if the rate increase is to protect against inflation then stocks could retreat.

In **ANY** scenario we feel that **diversification** is essential. We do not have a crystal ball, but in volatile times we rely on diversification to assist us in achieving your goals.

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 that is designed with one purpose in mind — to serve you, our valued client.

Restaurant of the Quarter – Amore Uptown

Located on Lake Street in Uptown Minneapolis, Amore Uptown offers Italian cuisine that, as stated on their website and confirmed by our resident foodie, "*features old world-immigrant style Italian classical dishes with a fun and elegant uptown twist.*"

With the summer in full swing, Amore's surprisingly spacious first-come-first-served rooftop is the place to be. With their extensive wine, beer, and cocktail menu, as well as a good offering of non-alcoholic cocktails, everyone in your party will be able to quench their thirst in an entertaining manner. Their shareable plates include Italian fan favorites such as Bruschetta, Calamari, and Caprese. For the main course, they offer many different Italian dishes, including Bolognese, Lasagna, Pasta Bella, and, of course, Pizza. To finish your meal, this reviewer highly recommends the Chocolate Torta, but the Tiramisu comes recommended as well.

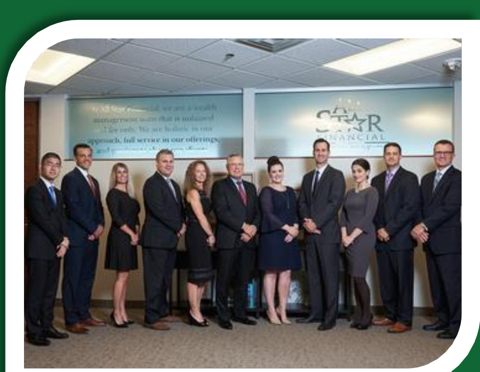
Meet New All Star Team Member – Jessica Simmons

All Star Financial announces the addition of Jessica Simmons, as an Executive Assistant. Jessica will be providing administrative support to our executive team and Wealth Advisors, while also assisting clients during office visits.

"We look forward to Jessica becoming a big part of our All Star Family. Welcome Jess!"

Ms. Simmons has over 5 years of experience in the customer service industry. Prior to All Star, she worked in the financial industry at Choice Bank (formally Venture Bank) as a Senior Client Services Specialist. Jessica graduated with a Bachelor of Arts in Psychology from Monmouth College in Monmouth, IL.

Jessica lives in the Lyn-Lake area of Minneapolis. Her personal interests include recreational hockey - of which she is a member of multiple leagues - traveling up to her family's cabin in the summer, reading, and exploring new places to eat in the Metro Area. Jessica is involved with the Episcopal Church of Minnesota through the Episcopal Youth Music Camp, a weeklong camp/volunteer opportunity that provides children with the chance to grow spiritually and musically.



Advisory services are offered through All Star Financial, a SEC Registered Investment Advisor.

Meet Our Team

Robert Klefsaas, CFP®, AIF®, CFDA®	CEO, Senior Wealth Manager
Brian Senske, MA, CPA (inactive)	CFO, COO, Senior Wealth Manager
J. Alexander Källebo, CFA®	Portfolio Manager
Matt Berhow CFP®, AIF®	Senior Wealth Manager
Sam Sexton CPA, CFP®	Senior Wealth Manager
David Osterberg, CPA	Tax Advisor
Brady Mickolichek CFP®	Associate Wealth Manager
Paula Zilka	Operations Manager
Kaitlin Buckley	Wealth Management Associate
Lucelia Husby	Client Service Associate
Zhaoren Chen	Portfolio Analyst
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