Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW

THIRD QUARTER 2019
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Markets Tread Water as "Trade War" Lingers

A "trade war" that resulted from President Trump's attempts to improve trade terms for American companies has created significant uncertainty for global financial markets. The MSCI All Country World Index had risen 38% from the date of Trump's election in 2016 until he appeared at the World Economic Forum in Davos, Switzerland on January 26, 2018 and announced that the United States needed to renegotiate its trade agreements. Since that time, global markets have endured significant volatility and lost 2.3% in value.

Interest rates have also been volatile. Before trade uncertainty emerged, the Federal Reserve (the Fed) was on a steady path of increasing interest rates. The Fed sought to keep the economy from overheating and stave off any inflation threat. With the trade war escalating, the Fed reduced its benchmark Fed Funds rate twice in the 3rd quarter and may do so again before the end of the year.

Economists and market analysts are hoping that the U.S. and China can reach a trade deal in the coming months. That could give the global economy a lift. If economic growth continues to slow and with the Fed Funds rate already low by historic standards, the Fed has little room to maneuver to help stimulate growth. The trade war is reducing overall trade volume and with declining export activity businesses may start reducing hiring or even begin laying off workers.

The trade issue is far-reaching, affecting matters ranging from the economy to national security and ultimately, politics. While trade deals can stimulate the economy, it is particularly crucial that any agreement with China offers protection for U.S. technology, a key security concern. If China proves unwilling to put greater concessions on the table, President Trump may be unable to get the deal the United States needs, and that he wants, heading into an election year.

The political and economic uncertainty throughout the major global economies is increasing. Both the stock and bond markets appear to be "expensive", from a valuation perspective, which could lead to "sideways" moves in the market in the near term. Long-term success is best achieved by staying the course in a properly diversified portfolio.

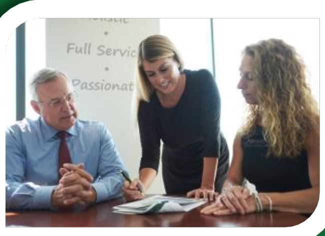
Bob's Corner

Yield Curve Inverts Again
Fed Easing to Continue

As the 3rd quarter of 2019 closed I was looking back on how volatile the bond markets have been and realized that we are recreating history with some of the lowest interest rates ever. The 10-year Treasury dropped from 1.96% in July to 1.50% in early September. With a fear of a slowdown in the economy ahead of us, the Fed is on a track to lower short-term interest rates perhaps again for the third time this year. This has been fantastic for the total return of your bond portfolio's (up over 6.5% year to date), but it is also scary from the fact that we do not have far to go before we are at the bottom for interest rates.

The Fed does not have much easing left to ignite the economy. Without a lot of dry powder, we expect that our bond performance will moderate going forward. Dividend paying stocks may be the answer after we start slowing down and the economy bottoms sometime in the next two years!

Enjoy the rest of your Fall and as always, we want to **Thank You** for trusting the All Star 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

The Expansion Continues (for now)

The long winning streak for the U.S. economy passed a major threshold in June, reaching its ten-year anniversary. It now represents the longest recovery on record since World War II. The asterisk that goes with the record is that the recovery has been generally tepid in terms of Gross Domestic Product (GDP) growth compared to most expansions. Over the entire 10+ year period of economic recovery, GDP has grown by only 23%. Recoveries that began in 1981 and 1990 generated cumulative GDP growth in the 40% to 50% range.

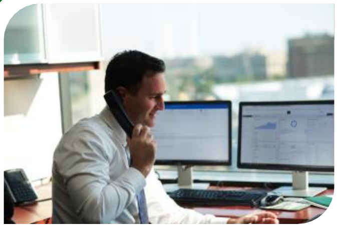
In the 2nd quarter, GDP only managed a 2% annualized growth rate. A year earlier, the economy grew at a 4.2% rate. Economists anticipate the 2% level to continue over the final two quarters of 2019 (we will get a first read on 3rd quarter GDP in late October). Consumer spending, responsible for about two-thirds of GDP, rose by just 0.1% in August. Although American workers are experiencing faster growth in personal income, the question is whether they will want to spend more or direct more into savings. In the meantime, businesses seem to be on the sidelines waiting for the next developments in trade negotiations. Business investment, representing about one-fifth of GDP growth, is expected to decline by 1.4% this year.

The Fed's two interest rate cuts during the 3rd quarter (in July and September) are being referred to as "insurance cuts" in advance of any significant recession risk. The Fed Funds rate now stands at 2%, with further declines likely in the coming quarters. The Fed's mandate is to control inflation and maintain strong employment. It appears to be succeeding on both fronts. Inflation, as measured by the Consumer Price Index (CPI), was 1.7% over the past year. At the same time, the unemployment rate has stayed below 4% since early 2017.

Looking Ahead

A decade into this economic recovery, it seems reasonable to expect a slowdown. The question is, at what point will the economy slip into an actual recession? The probability of a recession, based on an analysis from the Federal Reserve Bank of New York, has risen from 27% at the end of June to 38% today. A recession is inevitable, but the actual timing, depth and length of it is far less predictable. We believe the next recession will be less severe than in 2002 and 2009, but perhaps a little longer in duration.

Bond Markets



Yields Fall Again!

The yield (interest rate) on bonds significantly declined again in the 3rd quarter. Yields on the benchmark 10-year Treasury note dropped from 1.96% in early July to 1.68% at the end of the quarter. It dipped below 1.5% in early September, the lowest yield ever on the 10-year Treasury. Similar downward trends occurred for bonds of other maturities. Because bond prices rise when yields decline, this trend resulted in positive returns for bond investors.

Another landmark occurred on August 28th, when the yield on 2-year Treasury bills moved above that of the 10-year Treasury note. This was the first time such an inverted yield curve occurred since 2007 (just prior to the last recession). Although other parts of the curve have inverted over the past 18 months, this was the first time it occurred between the 2-year and 10-year Treasury. The inversion only lasted three days. At the end of the quarter, the yield on the 2-year Treasury stood at 1.63%, just below the 1.68% yield on 10-year Treasuries.

The Barclays U.S. Aggregate Bond Index returned 2.3% for the quarter and is up 8.5% over the first nine months of 2019. This represents an impressive return for bond investors.

Global bonds slightly underperformed U.S. bond markets in the 3rd quarter and the Barclays Global Bond Index gained just 0.7%. This primarily reflects the negative impact of a stronger dollar on returns for U.S. investors when the investment repatriates back to U.S. dollars daily. This offset price gains achieved by global bonds during the period.

Looking Ahead

Investors must be wondering just how low interest rates can go from here. There may not be much upside potential for bonds at this point and investors may want to approach this part of the market with caution. Typically, this late in the economic cycle, in anticipation of a looming recession, investors would be looking toward the "safe haven" of bonds. But that decision is more difficult today than it was at the end of 2018, when interest rates were much higher and at more normalized levels.

Domestic Stock

A sideways move

On the heels of what was the biggest December decline in stocks since 1931, U.S. stocks rebounded sharply in the first half of 2019. It was the best six-month start for the domestic stock market since 1997. Indexes normalized in the 3rd quarter, reflecting continued uncertainty created by the aforementioned trade disputes. By the end of the quarter, the Russell 3000 gained just 1.2% but is up more than 21.5% for the year. The positive returns reflect, in part, recent interest rate cuts implemented by the Fed and hopes that we're closer to a resolution in trade talks.

The Russell 3000 Growth Index gained 1.1% during the quarter, slightly underperforming the 1.2% return for the Russell 3000 Value Index. As uncertainties prevail, large companies continue to outperform smaller firms. The large-cap S&P 500 gained 1.7% for the quarter while the small-cap Russell 2000 lost 2.4%.

Utilities (9.3%) and Real Estate (7.7%) were the best-performing sectors during the quarter, fueled by yield-hungry investors seeking an alternative to bonds. Energy (-6.3%) and Healthcare (-2.3%) lagged the rest of the market, due in large part to political and economic uncertainties.

Looking Ahead

Strong returns in U.S. stocks this year have boosted valuations, as measured by price/earnings (P/E) ratios. The forward-looking P/E, comparing current stock prices to forecasted earnings for the coming year, sits at 16.8x as of the end of the quarter, slightly above the 25-year average of 16.2x. This is lower than a 2018 peak of 19x, but higher than its 14.4x level at the end of 2018. Higher stock prices and higher valuations have occurred in a time of declining earnings growth for the S&P 500. Earnings are expected to drop in the 3rd quarter and remain flat in the 4th quarter. Still, earnings are expected to grow by 2.5% for all of 2019. Recent gains in stock prices are due in large part to investors anticipating good news from trade negotiations.

Quote of the Quarter:

"Challenges are what make life interesting and overcoming them is what makes life meaningful."

-Joshua J. Marine

International Markets

Uncertainty reigns

International stocks declined in the 3rd quarter, underperforming U.S. equities. Along with concerns about trade, the impact of Brexit (Britain's pending exit from the European Union) is another critical concern. The MSCI All World Index (not including U.S. stocks) was down 1.8% for the quarter. Year-to-date, non-U.S. markets have gained 11.6% compared to the 20.5% return for domestic stocks (S&P 500).

China continues to contribute to the volatility experienced by international markets. After a scorching 54% return through 2017 and into January of 2018, China fell hard amidst President Trump's trade threats. The MSCI China Index declined 19% in 2018, then recovered in the first two quarters of 2019 but declined more than 4.7% in the 3rd quarter.

European stocks (MSCI Europe, -1.8%) outperformed Emerging Market stocks (MSCI EM, -4.3%) in the quarter. Uncertainties around how Brexit will be resolved led to efforts by the European Central Bank to stimulate economic growth. This boosted confidence that central banks are prepared to help overcome challenges caused by the political stalemate in Britain regarding Brexit.

Looking Ahead

International stocks look much more attractive from a valuation perspective than their U.S. counterparts given 3rd quarter performance. P/E ratios stand at 12x earnings for Emerging Market (MSCI EM) stocks and at 13.8x for Developed Markets (MSCI EAFE) compared to 16.8 for U.S. stocks (S&P 500). As is often the case, the key questions center on earnings and what to expect in the coming year. China's government is trying to find ways to stimulate growth to offset the slowdown we have seen in recent years. In Europe, Brexit continues to raise concerns as most observers believe a united Europe would lead to more economic growth. Yet beyond this vast array of uncertainty, international stocks are appealing due in large part to more attractive valuations and higher dividend yields than can be obtained from U.S. stocks. Dividends may very well play an increasingly important role in the total return formula for investors going forward.

Sources: All economic data is from JP Morgan's Guide to the Markets, September 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

Third Quarter 2019

Market Index	3rd Qtr	1 Year	3 Year	5 Year
MSCI ACWI All Cap NR	-0.20	0.35	9.32	6.58
S&P Global BMI NR	-0.24	0.34	9.28	6.55
MSCI ACWI Ex USA NR	-1.80	-1.23	6.34	2.90
Russell 3000 TR	1.16	2.92	12.84	10.45
S&P 500 TR	1.70	4.25	13.40	10.84
DJ Industrial Average TR	1.83	4.21	16.45	12.28
Russell Mid Cap TR	0.48	3.19	10.70	9.10
Russell 2000 TR	-2.40	-8.89	8.23	8.19
NASDAQ Composite TR	0.18	0.52	15.90	13.51
MSCI EAFE NR	-1.07	-1.34	6.48	3.27
MSCI EM NR	-4.25	-2.02	5.98	2.33
Barclays Global Aggregate TR	0.72	7.60	1.59	2.00
Barclays US Government TR	2.39	10.40	2.27	2.90
Barclays US Credit TR	2.98	12.63	4.34	4.54
Barclays US Agg Bond TR	2.27	10.30	2.93	3.38
Barclays High Yield Corporate TR	1.33	6.36	6.07	5.37
JPM EMBI Global Diversified TR	1.34	10.74	3.84	5.10

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.

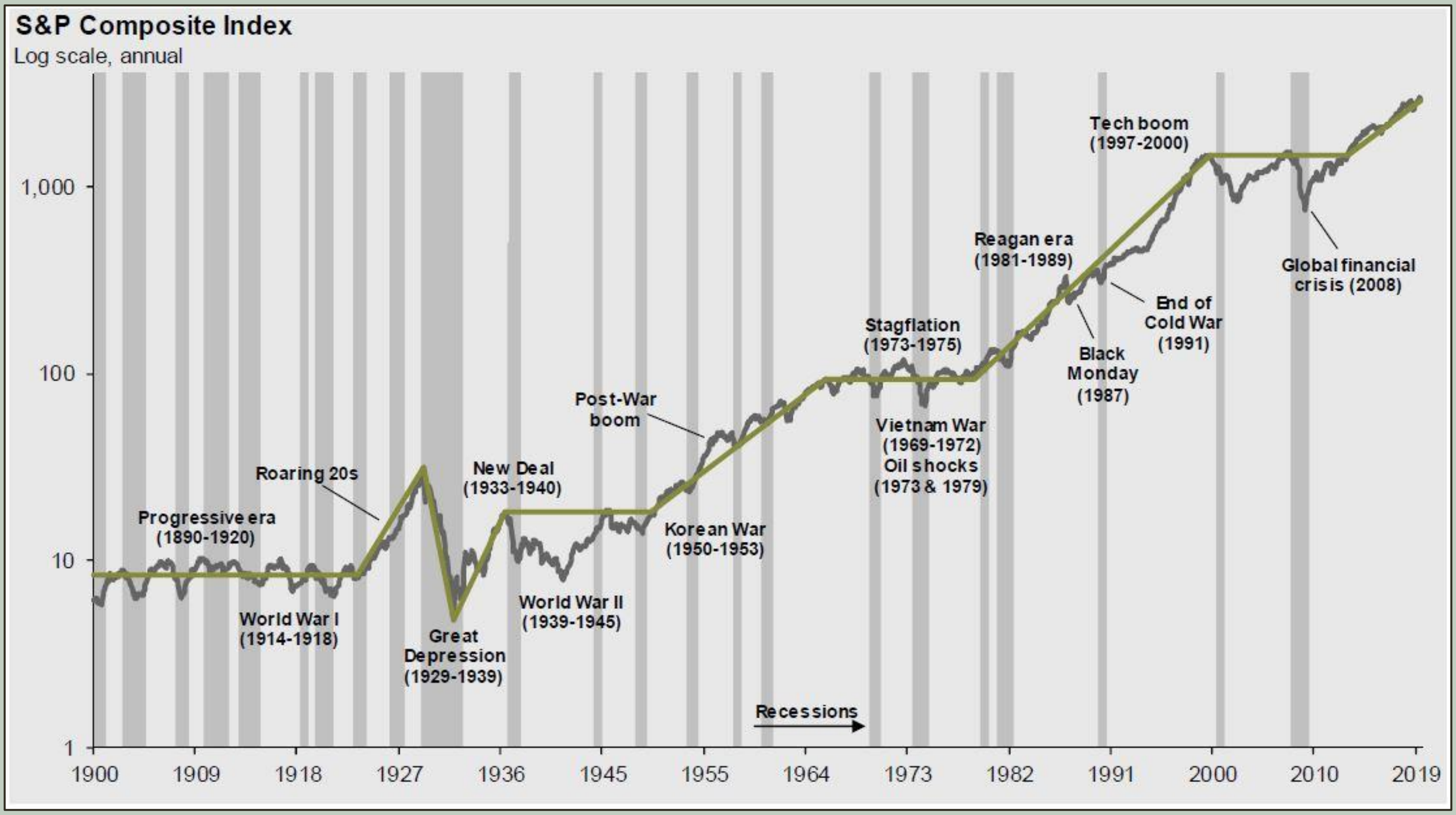
Summary & Overview

The 3rd quarter was a bit of a reality check for investors following the strong start to the year that stocks enjoyed in the first two quarters. While large-cap U.S. stocks managed to hold their ground and bonds performed well, most other segments of the market gave back some of the ground they gained in the first part of the year. It was a reminder to investors that the uncertainties surrounding the current economy can lead to periods of fluctuation in the market.

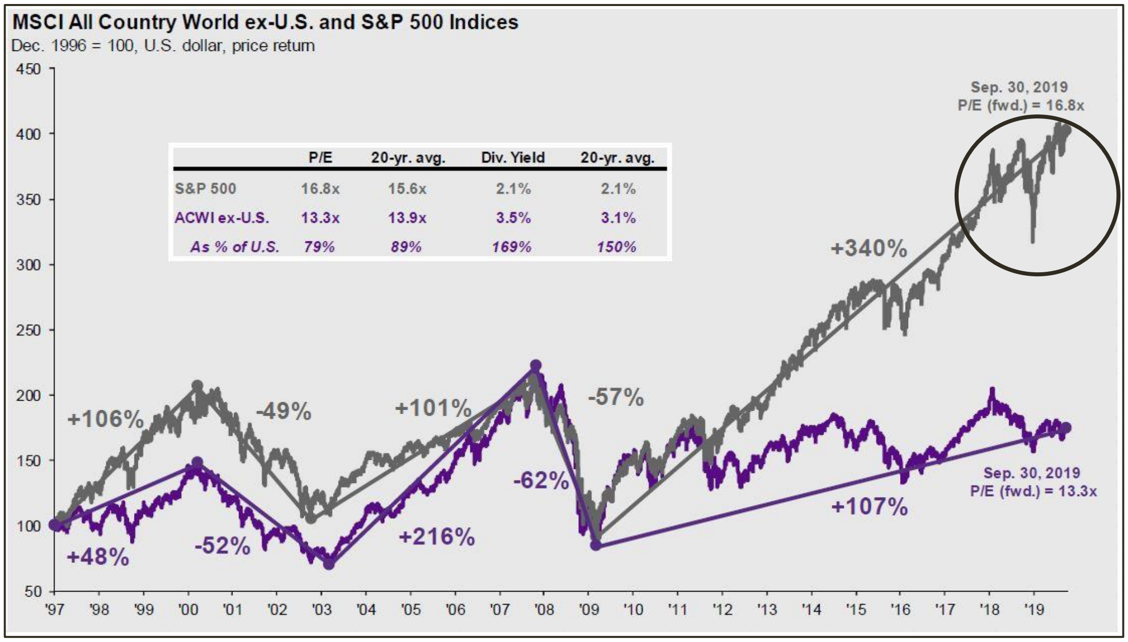
We encourage investors to remain properly diversified consistent with their risk tolerance level. It is fair to anticipate continued volatility in the market going forward, and a continued "sideways" market until we have more certainty. There are opportunities, however, to try to establish a long-term advantage for your portfolio during these types of periods.

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

Long Term Market Trends: Is the S&P 500 shifting to sideways?



The 20 Year Picture



The graph above shows the growth of the S&P 500 since 1900. Generally, the index has experienced time periods of significant growth as well as periods of prolonged sideways movements. These thematic trends have averaged well over 10 years on average. The index will soon enter its 11th year in a bull market. Since January of 2018, however, the equity markets have moved sideways. After a significant upward move in the wake of increased corporate earnings resulting from the 2017 Tax Reform, global equity markets have been struggling to find momentum given the trade war headwinds that are impacting the outlook for global economic growth.

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 – Giulia

Located in the heart of Downtown, Minneapolis, Giulia offers Northern Italian Cuisine by local Chefs Steven Brown and Josh Hedquist. Surrounded by marble columns and lush greenery, Giulia's simple and elegant design creates a sophisticated, yet cozy atmosphere for a perfect fall night out. Starting off with a hand-crafted cocktail or glass of wine from their well thought out Italian drink menu is sure to get conversations flowing. Not to miss is their *mozzarella a mano*, hand pulled mozzarella made tableside, is a dish guaranteed to wow not only for the freshness but also for the entertainment alone. For the main course, they offer fresh pasta and wood-fired pizza incorporating fresh ingredients and a selection of meat that is guaranteed to leave guests satisfied. Finishing the night with something sweet, their dessert is sure to leave you full and planning your next visit to try their savory breakfast and lunch menus.

Zucchini Cranberry Walnut Muffins

Makes 12 generous muffins
1 Box Spice Cake Mix
3 eggs (x-large or jumbo)
½ c sour cream
1/3 cup oil
1 c fresh grated zucchini
1 c dried cranberries
1 c chopped walnuts

Preheat oven to 350
Place 12 large muffin papers in muffin pan(s)
Using your mixer blend the cake mix, eggs, sour cream and oil.
Incorporate the zucchini, cranberries and walnuts into the batter using a large spoon or rubber scraper.
Spoon batter into muffin papers about ¾ full.
Bake for about 20 minutes.
Toothpick test should come out clean.
Optional…Top with a sprinkle of sugar or lite powdered sugar glaze

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

Meet Our Team

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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
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