ALL STAR FINANCIAL
Build Wealth. Retain Wealth.

QUARTERLY
REVIEW & PREVIEW
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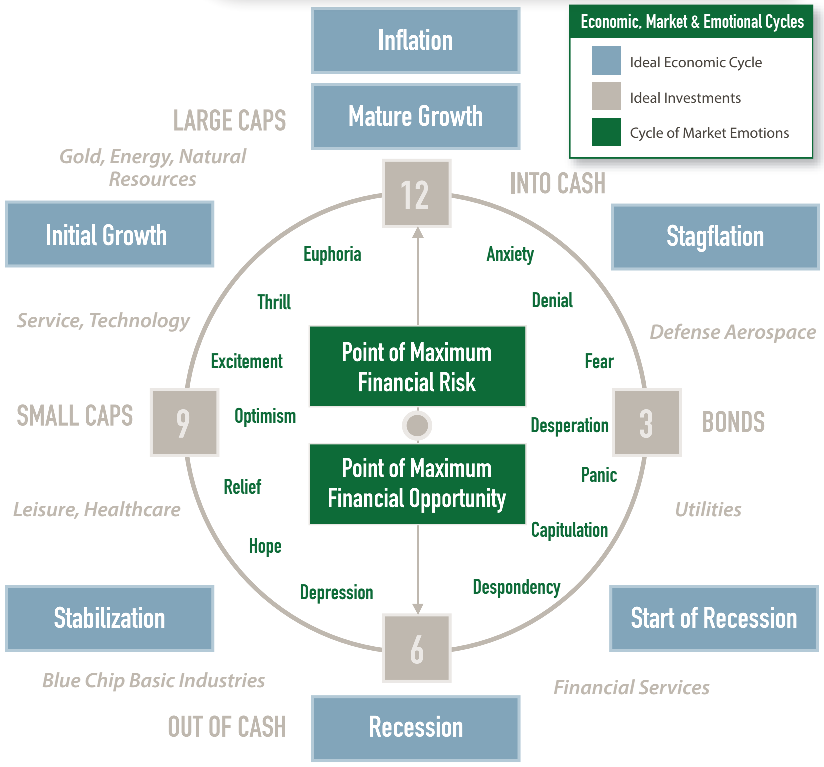
COVID-19 Fears and Reality Rattle Markets

As we wrote the 4th quarter 2019 newsletter and embarked on a new decade, who would have thought that within a 90-day time period our world would be turned upside down? In that newsletter I mentioned that I believed 2020 would be an important inflection point for investment markets after an 11-year bull market in equities. I could not have forecasted the cause. It wasn't a decade of low interest rates, rising leverage within our economy, unsustainable consumer spending, or political division that has created this historic volatility and decline in global markets. It is the unpredictable pandemic called COVID-19.

If the speed of the decline felt unprecedented, you were right! In the past 30 trading days we have experienced two of the three largest single-day declines, and three of the nine largest weekly losses for stocks since 1950. Over the past 70 years we have now experienced 14 Bear Markets (defined as stocks declining greater than 20% from their peak). It took just 20 trading days this time when the average 20% decline has averaged 255 trading days.



We are human beings and emotion is part of our nature. For over 33 years I have used the economic, market and emotional cycles chart (see exhibit) to reinforce why our approach of managing money can add value through business cycles. I frequently say that we are in charge of not allowing you to be greedy on the upside or fearful on the downside. Remember, "It's not how much you make, it's how much you keep."

Over the last few years, we have counseled most of our clients to take a step back in risk as the bull market continued and equity markets became more expensive in valuations. We also recognized the market had become even more overvalued in February and we took an additional 10-15% off the table (again, selling high) and put it into cash. The fact that we went from anxiety to capitulation faster than any time in our history has significantly tested investors' emotions. Anxiety led to denial, fear, desperation, panic and capitulation, but hopefully not despondency. Being prepared for all aspects of a cycle allows us to take the emotion out of our process. We look forward to reviewing this chart with you.

– Bob Klefsaas, Founder/CEO & Senior Wealth Advisor

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

COVID-19 ends 11-year recovery

- Gross Domestic Product (GDP) in the 4th quarter of 2019 grew at 2.1% and was expected to grow at 1.7% in 2020 and 2021. Then everything changed.
- With the impact of COVID-19, there is now consensus expectation that the great recovery of the past decade has ended and that economic activity will significantly slow, thus beginning the next recession.
- The US and world governments have responded with significant fiscal and monetary support to assist economies with the COVID-19 crisis. The Federal Reserve (the Fed) drastically reduced interest rates (monetary policy) from 1.75% to 1.25% on March 3rd and then to zero on March 15th.
- Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the CARES act) on March 27th, the largest economic stimulus bill in the history of the United States. The bill amounts to 10% of GDP and provides support to individuals, businesses, and hospitals.

The Bond Market

Rates reach historic lows

- Interest rates plummeted in response and in anticipation of the COVID-19 pandemic. On March 9th, the yield on the 10-year treasury bill hit an all-time low of 0.569%. The interest rate declined as the demand for bonds increased in conjunction with investors fleeing risky assets for "safe havens."
- In the subsequent week, however, the yield on the 10 year rose back to 1.185% as liquidity was sparse and even the safest US government bonds were sold in preference to cash.
- To prevent a liquidity shock, the Fed promised to infuse $1.5 Trillion into the system.
- A decline in yields, which correlates to an increase in bond prices, create short term gains for bond investors. The US Aggregate Bond index gained 3.15% in the first quarter.
- The yield on the US Aggregate Bond index is now a meager 1.7%, which has a negative impact on retirees or investors that are seeking current income.

Domestic Stocks

A historic quarter

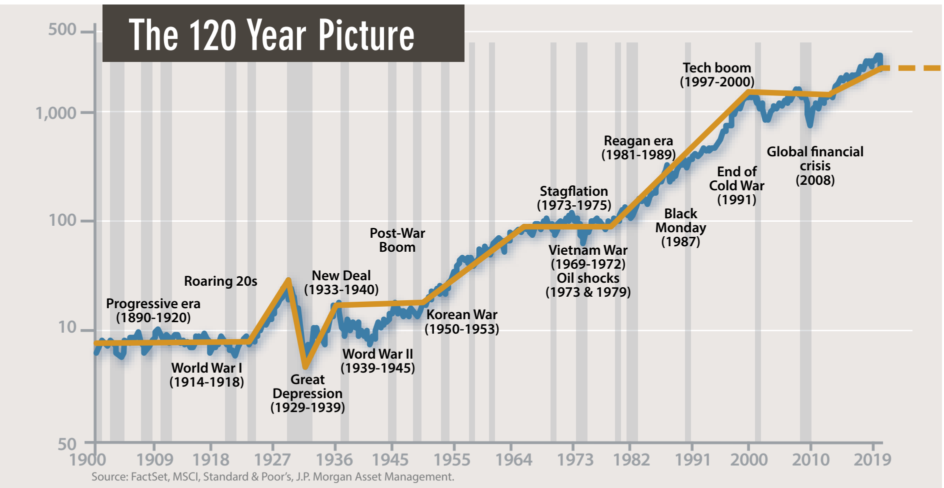
- After rising 5.1% from January 1st through February 19th, the S&P 500 fell 33.5% in the next 33 trading days in the fastest and most volatile transition from a bull market to a bear market in the history of the S&P 500.
- The sharp decline was highlighted by some of the largest single day moves in US market history, such as the -11.98% decline on March 16th.
- Oil prices fell from over $60/barrel to $20/barrel. Oil company stocks declined over 48% in the quarter.
- Financial stocks (-32%) were the 2nd worst performing sector due to plunging interest rates.
- Investors recognized that technology companies (-12%) and consumer staples (-13%) would be the least damaged by the pandemic and those sectors were the best performing in the first quarter.
- Economists are predicting a 10% to 20% decline in corporate earnings over the next few quarters.
- The Price to Earnings (P/E) ratio was an expensive 18x to begin the year, relative to the 25-year average of 16.3x. The P/E ratio slid to below 15.4x at the end of the quarter.

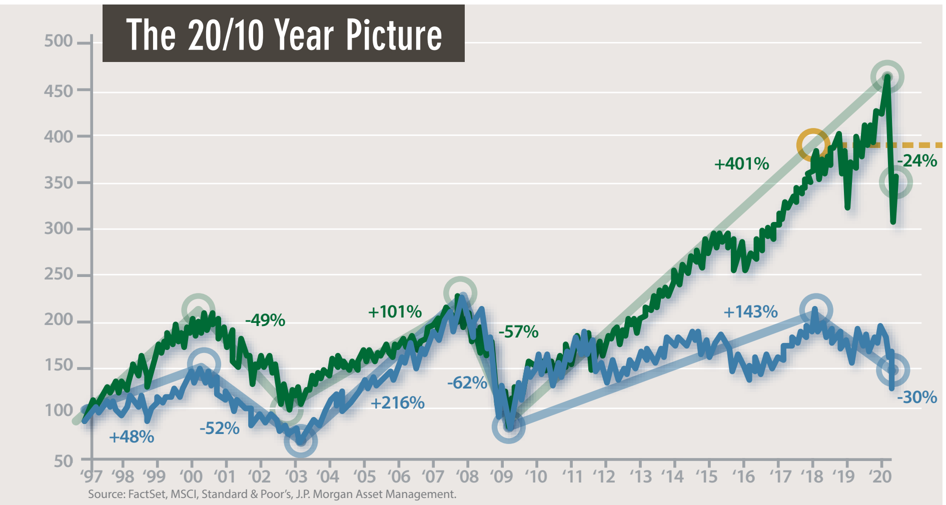
International Equities

Global Pandemic: COVID19

- International stocks were equally as devastated in Q1 as U.S. stocks due to the economic challenges of COVID-19.
- Developed and emerging equity indexes all reached bear market territory at some point in the 1st quarter. However, due to how different areas of the world were ultimately impacted, there were countries more impacted than others.
- While the MSCI ACWI All-World index declined over 22.5% in the quarter, the Chinese MSCI Index fell only 10% as investors observed their economy coming back on-line faster and sooner than other developed economies.
- Brazil, on the other hand, had one of the worst overall declines (-50%) due to its concentration of oil stocks.
- The P/E ratio continues to be further discounted in developed markets (12.3x), Europe (11x) and emerging markets (10x) than the United States (15.4x).

Sources: All economic data is from JP Morgan's Guide to the Markets, March 2020 (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.



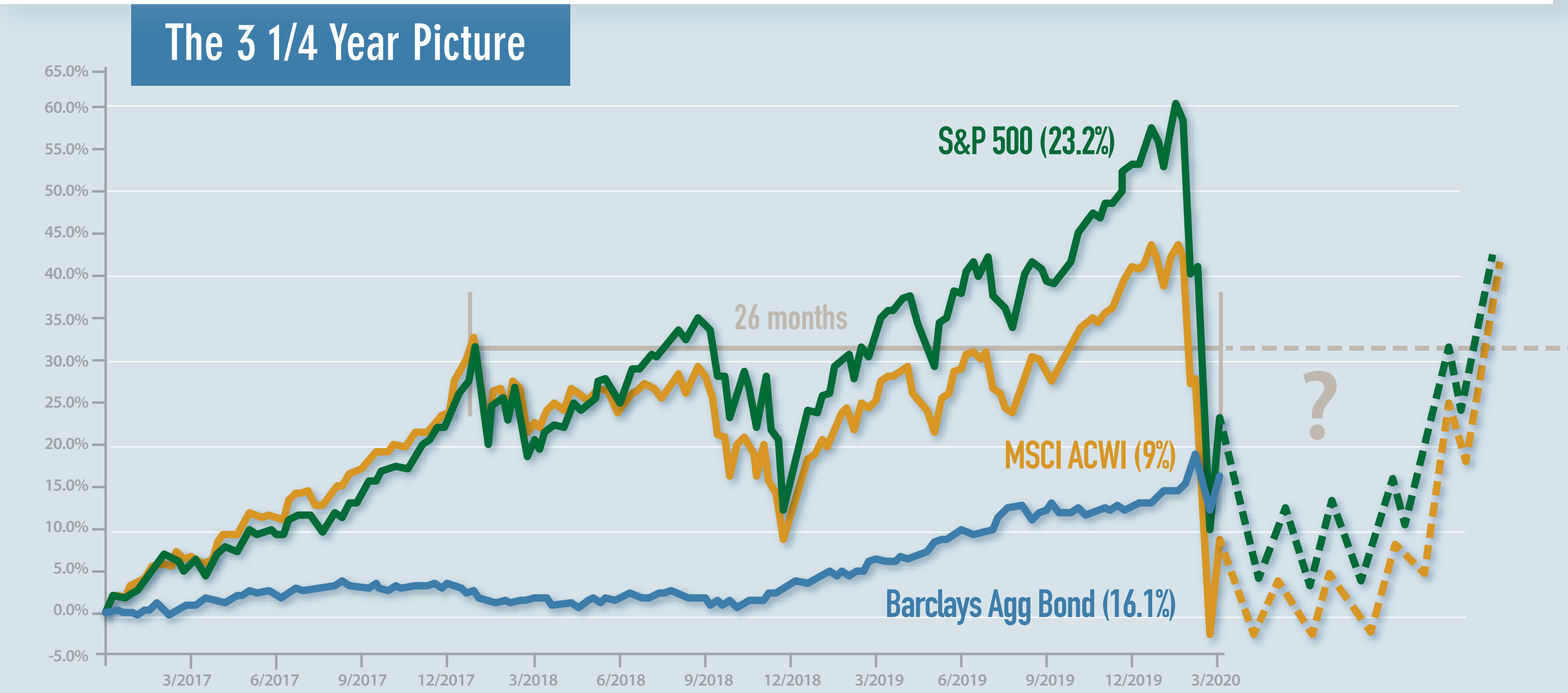


Sideways Markets – is this #5?

After writing in our 4th quarter 2019 newsletter that we felt the equity market was overvalued and primed for a 10-12 % correction, I hate to say it but, we were right! What we were wrong about, however, was the cause and the scale. We did not predict a global pandemic or a decline of -34% in the S&P 500.

Over the past few quarters, we have provided these charts that demonstrate how historically markets move sideways for extended periods of time. We believe that the market may have peaked in early 2018 and is continuing to move sideways. The "3-year picture" we included in our 4th quarter newsletter included a question mark (?) for the future because the market had just rallied and increased valuations to very lofty levels. Would it finally go down? With this 3 ¼ year picture we can again evaluate this cyclical trend. It is highly likely that the COVID-19 pandemic will continue a nine to eighteen-month time period of volatility where the equity markets move up and back down as it forms a bottom. If this occurs, it may result in the 5th extended time period since 1900 with no sustained growth for equity investors.

Truly, the market never moves perfectly sideways. However, In the short term, we believe the market correction & recovery will look more like a U or a W. With the downturn as steep and sharp as it has been, we believe the upside could be that steep on the way up. It's all about containment of COVID-19 and the effectiveness of the Fed's quantitative easing programs as well as fiscal policies passed by Congress. The primary unknown is determining the length of the bottom of this U or W. We believe that between the virus uncertainty and an election in November, this bottoming may extend until the end of the fourth quarter of 2020. On the other hand, if the mitigation strategies lead to the ideal result OR a vaccine is identified quicker than expected, the market and the economy may rebound faster than we expect.



Performance Update

First Quarter 2020

Market Index	4th Qtr	1 Year	3 Year	5 Year
MSCI ACWI All Cap NR	-22.50	-12.79	0.69	2.42
S&P Global BMI NR	-22.44	-12.78	0.68	2.39
MSCI ACWI Ex USA NR	-23.36	-15.54	-1.96	-0.64
Russell 3000 TR	-20.90	-9.11	4.00	5.77
S&P 500 TR	-19.60	-6.96	5.10	6.72
DJ Industrial Average TR	-22.73	-13.36	4.42	6.86
S&P MidCap TR	-29.70	-22.47	-4.09	0.56
Russell 2000 TR	-30.61	-23.95	-4.64	-0.25
NASDAQ Composite TR	-13.95	0.69	10.39	10.69
MSCI EAFE NR	-22.83	-14.35	-1.82	-0.62
MSCI EM NR	-23.60	-17.65	-1.62	-0.37
Barclays Global Aggregate TR	-0.33	4.19	3.55	2.64
Barclays US Government TR	8.08	13.05	5.78	3.63
Barclays US Credit TR	-3.14	5.09	4.19	3.28
Barclays US Agg Bond TR	3.15	8.91	4.82	3.36
Barclays High Yield Corporate TR	-12.68	-6.92	0.76	2.78
JPM EMBI Global Diversified TR	-13.38	-6.82	0.42	2.82

*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.

Bob's Corner

This is YOUR time to shine

In these unprecedented and historically volatile times, I would like to remind you to **"control the controllables."** We cannot control the market, the government, what virus that is circulating, or how anyone else reacts to all of these things. But we **CAN control how we respond: our perspective, attitude and effort.** I believe there is one fact that is certain; we always get rewarded for doing the right thing and for hard work... sometimes today, often later, but ALWAYS eventually!

Please, please keep moving forward, keep perspective and choose a healthy outlook. Not only will this allow you to have a positive impact on our society that so desperately needs it right now, but it will also boost your immune system! It's a proven fact that pessimism, stress and isolation are three quick ways to eliminate opportunities for success and weakens our immune systems.

As a person of influence, the example you set is needed now more than ever to help others rise above this circumstance. Positively impact your circle of influence and be the calm in the storm. This is your time to shine!!

-Bobby K.

“It’s not how much you make, it’s how much you keep!”

All Star Financial has used this quote many times over the last 33 years, but it is now more relevant than ever before. The quote is the headline, but the discipline is DIVERSIFICATION. When we managed through the financial crisis that began in November of 2007 and lasted until March of 2009, we watched the S&P 500 decline 60%, while All Star’s average portfolio lost “only” 32%. We’ve explained many times that an investor in a passive index fund that incurred a 60% loss in their portfolio would require a 150% return to get back to even. All Star’s average client lost “only” 32% which requires the portfolio to only climb 48% to get its value back to even. We are proud to say that we got our clients portfolios back one year and four months sooner than the market did during the financial crisis. That was accomplished by diversification and asset allocation.

The example below illustrates how playing defense wins championships. It’s not pretty, nor does it make you feel good along the path. **But, in the long run diversification coupled with patience always wins!**

A diversified portfolio wins, even though it never feels good.

40% U.S. stocks, 15% international stocks, 5% small cap stocks, 30% U.S. bonds, 10% high yield bonds

Years	S&P 500	Diversified Portfolio
2002*–2002	(40.1%)	(18.6%)
2003–2007	+82.9%	+73.8%
2008	(37.0%)	(24.0%)
2009–2019	+351.0%	+191.7%
2020**	(28.3%)	(19.8%)
Total Return %	**+133.7%**	**+157.9%**
Compound Growth of $100K	**$222,883**	**$251,467**

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.

BEAR MARKET CHECKLIST *– Have a game plan!*

1. Stop watching the stock market – Do not check you portfolio incessantly
2. Do not make emotional decisions (see page 1)
3. Schedule a call with All Star Financial
4. Be cautious of where you get your information (social media vs. The Wall Street Journal!)
5. Ensure you have an appropriate emergency fund in liquid checking/savings
6. Stay with your long term investment strategy – if you have not sold, its too late!
7. Invest extra cash – Be opportunistic
8. Prepare for historically low interest rates for the foreseeable future
9. Tax loss harvest – make lemonade out of a lemon
10. Control the controllables – perspective, attitude, effort – and choose to be positive!

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
Brady Mickolichek CFP® – Associate Wealth Manager
Paula Zilka –Operations Manager
Nicole VandenPlas – Executive Assistant
Kaitlin Buckley – Wealth Management Associate
Lucelia Husby – Client Service Associate
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