ALL STAR FINANCIAL

Build Wealth. Retain Wealth.

QUARTERLY

REVIEW & PREVIEW

THIRD QUARTER 2022 | VOLUME 29 • ISSUE 3

Is This: The Beginning – The Middle – Or The End?

After a phenomenal 98% rise in the MSCI ACWI All Cap from March 23, 2020 to December 31, 2021 the market fell from January 1, 2022 to September 30, 2022 over -26%. This made it an official bear market (-20%). Since 1926, we have had bear market declines ranging from -22% to -86%, with an average cyclical type bear market of -30%. The depth of this current bear market will, to a large extent, depend on the depth and length of the recession. From a market perspective, the worst of this may be in the rearview mirror. How the next several quarters play out likely rests on whether the bear market coincides with a shallow or deep economic recession.

All eyes are on the Federal Reserve and whether they can successfully rein inflation back to 2% without breaking the economy. The Fed's primary ammunition to fight inflation is to raise interest rates, which increases the cost of borrowing money, reduces demand for new purchases, and eventually slows growth (inflation). This is a tricky needle to thread because too little action keeps inflation climbing, while an overly aggressive approach could suffocate economic growth altogether. Further complicating this, the Fed is attempting to manage this against the backdrop of another contentious election, China in lockdown, and the ongoing war in Ukraine. At this stage of the economic cycle, uncertainties outweigh answers, but that is a recipe for opportunity.

Is This a Repeat of 2008?

History says we will see a 2008 type of downturn every 30 years. It is unlikely that we are heading down that path today. The most influential cause of the 2008 recession was too much bad debt. The most influential factor today is too much cash in the system. Those scenarios are worlds apart. Today, households are spending, family debt is manageable, and virtually every American who wants a job is employed. This environment should benefit consumer-driven economies like the US. The only caveat is whether or not the debt on commercial properties hurts our markets significantly.

What Action is All Star Financial Taking?

You have heard us talk about Wayne Gretzky attributing his success in hockey to "skating to where the puck is going, not where it has been." Dynamic asset allocation succeeds by being early when the environment is uncertain, and All Star Financial has been preparing for this environment for 10 years. "The interest rate paradigm shift has given less importance to bonds" is a suddenly popular theme to explain the negative performance of bonds in 2022, but at All Star Financial that appeared in our 1st quarter 2012 newsletter! This helped us to be ahead of the puck and we acted accordingly in 2019, 2020 and 2021 by reducing bond exposure to the low end of our investment policy statement, increasing cash, and hedging our equity downside. That puts All Star Financial clients in the enviable position of seeking opportunities in the current environment rather than chasing losses.

Uncertainties Beget Opportunities!

With uncertainty comes opportunity. Today, falling bond values give us an asset allocation opportunity. The best predictor of future returns has historically been the relationship between price relative to value (P/E). Not since 2009 have international equity valuations forecasted better returns per dollars worth of earnings. The Aggregate Bond index has shed -20% through the end of September, the worst calendar year performance since 1867. Being opportunistic and ahead of the curve is a core tenant of the All Star Financial investment process. **Remember our motto, *"It's Not How Much You Make, It's How Much You Keep!"***

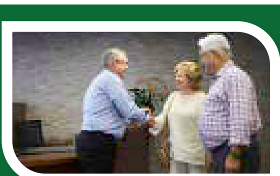
Bob's Corner

We are proud to say that our motto, "It's not how much you make, it's how much you keep" has worked again. In the first 35 years of business, All Star Financial has promised and delivered in all 19 downturns of greater than 10% in the market. We have always lost less AND got your money back to whole sooner than the broad market indices. This is a direct reflection of our discipline that keeps us ahead of the game. We believe in: Active (vs passive) wealth management, by using dynamic asset allocation within your portfolio, all the while making sure that we are tax-sensitive in every move we make.

Below is a look at the 13 most beneficial asset allocation and tax strategy moves we have made for you since December 2019.

1. Sold 15% to cash (December 2019)
2. Sold 15% to cash (February 2020)
3. Increased Value exposure (May 2020)
4. Bought S&P 500 Buffer (June 2020)
5. More equity exposure after the election (November 2020)
6. Sold 8% - 16% of bonds (January 2021)
7. Increase Value vs. Growth again – 30/70 to 70/30 (April 2021)
8. Changed fund manager & increased value tilt (May 2021)
9. Buffer to Hedged Equity (June 2021)
10. Sold 7% - 16% more bonds (February 2022)
11. Tax loss harvesting emerging markets (March 2022)
12. Bought Real Asset Fund (May 2022)
13. Tax loss harvesting bonds (August 2022)

– Bobby K.



BUILD WEALTH. RETAIN WEALTH.

All Star Financial 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

Economic Conditions Across the Globe Are Deteriorating

- Finalized GDP data confirms that the US economy shrank in Q2 by -0.6% on an annualized basis. This confirmation of a GDP contraction for a second straight quarter indicates that the US has entered into a technical recession.
- The annual inflation rate remains high, as the latest Consumer Price Index (CPI) reading was 8.3% in August, a 0.2% surprise on the upside from an expected CPI estimate of 8.1%.
- The US unemployment rate also rose to 3.7 percent in August of 2022, the highest since February and above market expectations of 3.5 percent.
- ***Global economic conditions are still deteriorating due to historically high inflation, pandemic lockdowns and an energy crisis exacerbated by the continued European war. We see lower economic growth globally, and that a European recession is likely. In the U.S., a soft landing seems unlikely. However, we believe that the U.S. economy will hold up better than Europe in the near to intermediate future.***

Bond Markets

Fixed Income Markets Continue to Decline

- Global fixed income markets continued the yearly decline during the third quarter as fixed income asset prices fell as yields rose. The Global Aggregate Bond Index fell -6.3% and into bear market territory, -20% year to date, which is the first time ever. Domestically, the US Aggregate Bond Index declined -4.5% over the quarter and is now down -14.6% for the year.
- To battle inflation, the FED and central banks across the globe have continued to aggressively raise interest rates. Following the FED's September meeting, the Fed raised its federal funds rate by 0.75% to 3.00 – 3.25%. This is the Fed's third straight 75 basis point hike this year, which is the largest rate hike in magnitude since 1994.
- The 10-year Treasury Note yield rose during the quarter, from 2.7% in the beginning of the quarter to end at 3.8%. The 2-year Note yield also rose significantly; from 2.6% to 4.3% at quarter end. Another sign of a recession (inverted yield curve).
- ***Fixed income across the board repriced dramatically during the quarter. With the unprecedented stimulus money added to the global monetary system since 2020, we are not surprised that inflation has become the global economic headwind that everybody is trying to solve. We are starting to be more optimistic about fixed income but recognize that there is still risk in the near term due to most central banks commitment to continue to raise interest rates until inflation comes down meaningfully.***

Domestic Stocks

Two Tale Quarter

- The S&P 500 started the quarter on a positive note and rose from bear market territory, rising 14% by August 16th. However, over the second half of the quarter, the S&P 500 reversed and went back into bear market territory, falling -18.8% from its August high to end the quarter -4.9%.
- Equity valuations improved slightly during the quarter. Current S&P 500 forward P/E ratio fell from 15.9 to 15.4, which is 8.3% lower than the 25-year average ratio of 16.8.
- Contrary to last quarter, the Growth style of the Russell 3000 outperformed the Value style, -3.4% vs. -5.6%.
- ***With once-in-a-generation inflation, the domestic equity market has been oscillating between hope and fear as the FED raises interest rates. The high uncertainty and market fluctuation is likely to continue until we see inflation come down meaningfully and the FED pivot, or at least pause, their aggressive rate hikes. We continue to be defensively positioned.***

International Stocks

International Equity Markets Under Pressure

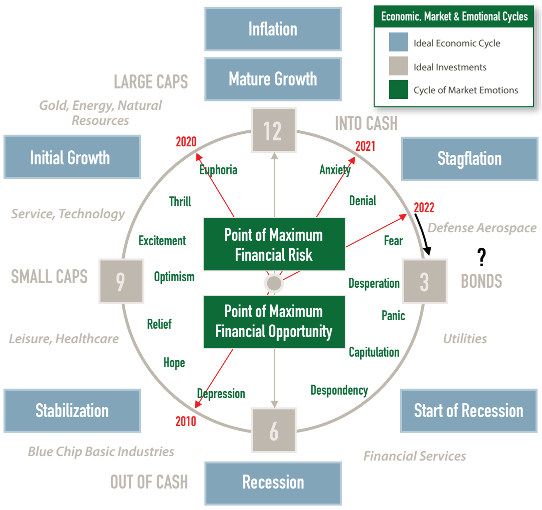
- Due to the increasing concerns of slower growth, ongoing war in Ukraine and very high inflation, international equity market (MSCI ACWI ex-US Index) declined more than the domestic market (Russell 3000 Index), -9.9% vs. -4.5%.
- Emerging markets (MSCI EM Index) had a rough quarter and declined -11.6% and is on its way to enter its longest bear market in history.
- Looking at valuations, the current MSCI ACWI ex-US forward P/E ratio is 10.8%, down from 11.7% at last quarter end and a 31% discount to the S&P 500 P/E ratio.
- ***With significant declines in overseas markets, we see pockets of opportunities building as the market have discounted a lot of future risk. However, we continue believe that international markets, especially Europe, face difficult economic and investment environments due to increased probability of recession.***

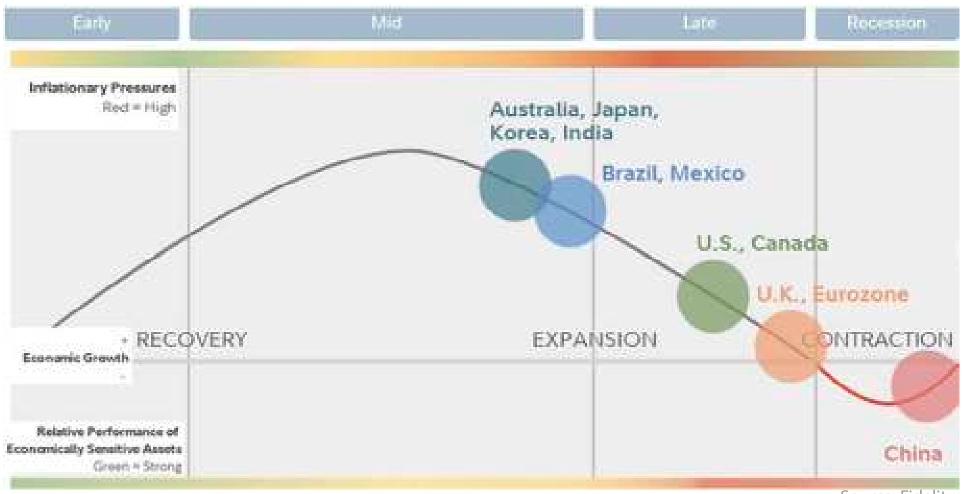
Sources: All economic data is from JP Morgan's Guide to the Markets, September 2022 (https://am.jpmorgan. com/us/en/asset-management/gim/per/insights/guide-to-the-markets/viewer#/share-by-email) and all rate of return data is from Morningstar.com, unless otherwise noted by citation.

The Economic Cycle – Where Are We Now?

Where are we now?

By commonly agreed upon measurements, the US entered into a recession in July of 2022, completing the second consecutive quarter of GDP contraction. Our first recession in 14 years is long overdue! A full economic cycle is vital to a healthy economy, much like a forest fire revitalizes nature. As you can see, China is already in a recession due to its zero COVID case policy, while the rest of the world has passed peak growth and is now heading to contraction. The current supply chain bottlenecks and high inflation is similar to the post-war 1940's when millions of Americans returned to the workforce simultaneously. The S&P 500 suffered a -27% decline in 1946, almost identical to 2022.





Source: Fidelity

The 60/40 Portfolio in 2022 vs ASF 80/20 Portfolio in 2022

The Worst Years Ever For a 60/40 Portfolio

Year	60/40 Portfolio	Reason
1931	-27.3%	Great Depression
2022	**-25.9%**	**Impending Recession**
1937	-20.7%	1937 Crash
2022	**-20.3%**	**ASF 80/20 Portfolio**
1974	-14.7%	1973-74 Bear Market
2008	-13.9%	Great Financial Crisis
1930	-13.3%	WWII
1941	-8.5%	Great Depression
2002	-7.1%	Dot-Com Crash
1973	-7.1%	1973-74 Bear Market
1969	-6.9%	Nifty Fifty Crash
2001	-4.9%	Dot-Com Crash
1966	-4.8%	Bear Market

Source NYU

"Beware The Paradigm Shift!" All Star Financial warned in July 2012 of the effect that the reversal of 35+ years of decreasing interest rates would have on a traditional 60% Equity 40% Bond retirement portfolio. For decades Bonds have been a reliable cushion to negative stock returns, but in 2022 the double whammy of inflation and rising interest rates has resulted in the worst performing year for bonds since 1867!

In 2021 All Star was ahead of the curve, shifting bond allocations in our portfolios to the low end of our investment policy statement. This move out of bonds and into cash and alternative investments saved our clients approximately **$30-40 Million dollars.**

Sources: All economic data is from JP Morgan's Guide to the Markets, September 2022 (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 2022

Market Index	3rd Qtr	1 Year	3 Year	5 Year
MSCI ACWI All Cap NR	-6.7	-21.3	3.6	4.1
MSCI ACWI Ex USA NR	-9.9	-25.2	-1.5	-0.8
Russell 3000 TR	-4.5	-17.6	7.7	8.6
S&P 500 TR	-4.9	-15.5	8.2	9.2
DJ Industrial Average TR	-6.2	-13.4	4.4	7.4
Russell MidCap TR	-3.4	-19.4	5.2	6.5
Russell 2000 TR	-2.2	-23.5	4.3	3.6
NASDAQ Composite TR	-3.9	-26.3	10.6	11.2
MSCI EAFE NR	-9.4	-25.1	-1.8	-0.8
MSCI EM NR	-11.6	-28.1	-2.1	-1.8
Bloomberg Global Aggregate TR	-6.9	-20.4	-5.7	-2.3
Bloomberg US Government TR	-4.3	-12.8	-3.1	-0.2
Bloomberg US Credit TR	-4.9	-17.9	-3.6	0.0
Bloomberg US Agg Bond TR	-4.8	-14.6	-3.3	-0.3
Bloomberg High Yield Corporate TR	-0.6	-14.1	-0.5	1.6
JPM EMBI Global Diversified TR	-4.2	-22.2	-6.1	-2.3

*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

What are the key things you should do in this uncertain time period to assure your success in the next 10-20 years?

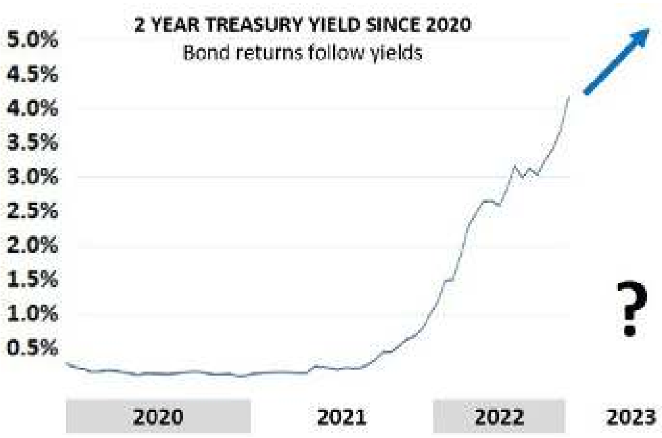
1. Take a deep breath
2. Sell high, buy low
3. Keep cash
4. Make sure cashflow is adequate
5. Stick to your plan (discipline)
6. Start looking for purchase opportunities
7. Don't look at the market daily
8. Buy low, sell high
9. Take another deep breath
10. Be patient

With uncertainty and volatility comes opportunity. Rest assured we have prepared your portfolios to take advantage of that!

With Uncertainty Comes Opportunity in the Next 6-18 Months

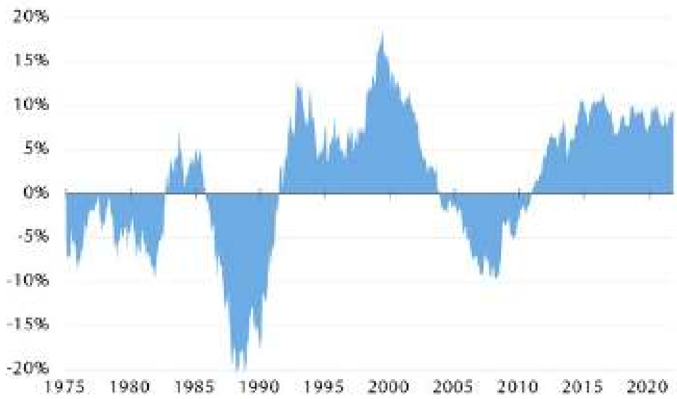
BONDS

As interest rates rise and inflation stabilizes, we look at bonds as our friend and a great diversifier again. Gone are the days of 0 or 1% interest, today's 2-Year Treasury bonds are paying 4.30%. Having suffered their worst price decline in American history, bonds are selling at attractive discounts as well.



INTERNATIONAL EQUITY

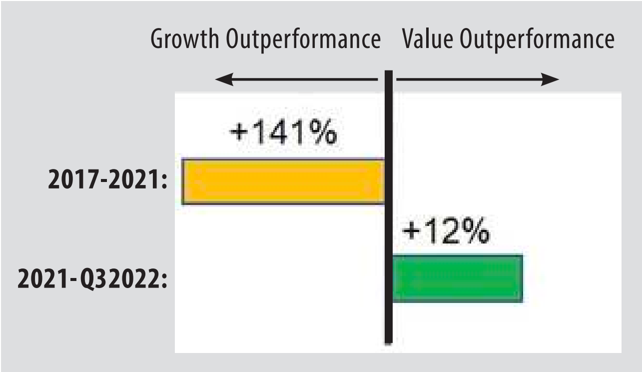
Over a full market cycle the best predictor of returns is the price you pay relative to the value you receive. International stocks are the most attractively priced asset in the market today. The US stock market had an incredible 12 year run, outpacing every major global index. Historically that level of outperformance is unlikely to repeat.



Above zero, the U.S. market outperformed; below zero, international markets outperformed

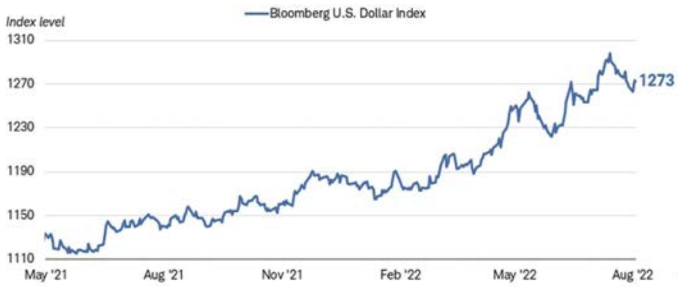
VALUE VS GROWTH

In 2021 All Star Financial saw a significant asset allocation opportunity and implemented a large overweight position of large cap value to large cap growth equities. For every dollar we had in equities we had 70 cents in Growth and 30 cents in Value. We flip flopped and sold Growth high and bought Value cheap. Since then, Value has outperformed Growth by almost 12%. This has benefited our clients in 2022 as the extreme valuations in large cap growth have devastated the asset class. We will be ahead of the curve in reversing this position when valuations dictate.



US DOLLAR

The United States set the COVID-exit playbook for the world which preceded a flurry of demand for safe refuge into the dollar. Currency disorder is one of the most predictably mean-reverting long-term data points in finance. As the US Dollar comes back to earth it will benefit holdings in international bonds and equities, reduce demand for US financial assets and weaken local company earnings. As friendly as US-centric investment portfolios have been recently, history suggests a global approach may be prudent over the next cycle.



ALL STAR FINANCIAL

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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.

New Team Member Spotlight

Shona Koester

Chief Operating Officer

Shona joined our team as the COO and brings 25 years of experience running companies. She has a successful track record leading relationship-driven businesses around the US and we are excited about her fresh perspective.

Eric Gardner, CFA®

Senior Wealth Advisor

Eric is a CFA® that comes to All Star with 14 years of wealth advisory experience serving both private family clients and corporations. He is our newest Senior Wealth Advisor and is passionate about providing best-in-class service and advice for our clients.

Matt Muller

Junior Analyst

Matt may be a familiar face to some of you, as he was a former All Star intern who has now accepted a full-time role in our Investment Department as a Junior Analyst, working closely with our Portfolio Manager, Alexander.

Jennifer Penner

Executive Admin

Jennifer is the new President of First Impressions at All Star. She provides support to our Executive Team and Senior Wealth Advisors, while also assisting clients during office visits and over the phone. She is a true all-star with a welcoming smile and can-do attitude.

5th Annual Client Celebration Event

Thank you to all who attended our 5th Annual Client Celebration Event that took place in September! We were honored to celebrate 35 years of All Star Financial with all of you enjoying delicious food, great company and fun musical entertainment. As always, we thank you for your continued trust in the All Star Financial Team, and we hope you will **SAVE THE DATE** for next year's Client Celebration Event that will take place on Friday, September 22nd, 2023 at the beautiful Minikahda Club!

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

Meet Our Team

Robert Klefsaas, CFP®, AIF®, CDFA®– CEO, Senior Wealth Advisor
Shona Koester – Chief Operating Officer
Matt Berhow CFP®, AIF® – Senior Wealth Advisor
Sam Sexton CPA, CFP® – Senior Wealth Advisor
Eric Gardner, CFA® – Senior Wealth Advisor
Elliot Syverson – Associate Advisor
J. Alexander Källebo, CFA® – Portfolio Manager
Matt Muller – Junior Analyst
Amanda Giliotti , JD, CPA – Director of Tax Services
David Osterberg, CPA – Tax Advisor
David Engelsgaard, CPA – Tax Specialist
Ani Ahmed – Tax Preparer
Linda Davis – Tax Assistant
Lucelia Husby – Client Service Associate
Haley Ziemke – Client Service Associate
Nicole VandenPlas – Executive Assistant/Office Manager
Jennifer Penner– Executive Admin

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