

ALL STAR FINANCIAL REVIEW & PREVIEW

2023 FOURTH QUARTER
VOLUME 30 | ISSUE 4

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- The Economy :: Domestic & International Stocks :: Bonds
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- Performance Update
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- What's New & Bob's Corner

ANNOUNCEMENTS

- The markets and our office will be closed on February 19th for Washington's Birthday & March 29th for Good Friday

ALL
STAR
FINANCIAL

Build Wealth. Retain Wealth.

FOUR YEARS OF UNCERTAINTY

As we look back on the past four years and ahead to 2024, the uncertainty of this decade has been unprecedented.

When we entered 2020 our greatest risks were wildfires and Brexit. The World Economic Forum listed Infectious Disease as the **29th likeliest risk** to the global economy entering 2020. Nobody predicted what was on our doorstep. New events we have endured in the 2020's are:

- New Phrases: Social Distancing, Meme Stocks, Retail Apocalypse and ChatGPT.
- Mortgage Rates went from 5% to 2.5% to 8% back to 6% in just 36 months.
- Our National Debt has increased by \$10 Trillion.
- In our first 220 years as a union, the United States experienced 2 formal impeachments. We are now threatened with our third in four years.

30 of the 36 months (83%) leading into January 2020 the market was positive, with just 20 of the following 36 months (55%) in the green.

What caused this uncertainty? Our previous 4 years of newsletters tell us we were right on track:

2020

- COVID-19 created the sharpest sell-off and the fastest recovery in the history of the stock market.
- The opportunity for stimulus is critical to how the next six months play out.
- Yes, expect more VOLATILITY!

2021

- The paradigm shift in bonds has created less upside going forward.
- Continued to sell growth stocks and purchase value stocks based on current valuations.
- We have your portfolios ready for more volatility and uncertainty.

2022

- Producing Total Return is the key to making money work for you in a sideways market.
- We anticipate that the economy will not be as fruitful in the next 2-3 years as we go into and come out of this recession.
- Bonds, on the other hand, will be a greater benefit to your total return in the years ahead.

2023

- Using bonds to create more total return.
- Since 1900 we have seen four eras of flat markets lasting 12 years or more.
- Fed acted swiftly and will again. More hurdles yet to come...

See inside for how we've adapted portfolios for different risks of the past four years and what we see ahead.

BUILD WEALTH. RETAIN WEALTH.

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

REVIEW & PREVIEW

THE ECONOMY

Resilient Year, Inflation Abates, No Recession

REVIEW

- The US economy (GDP) grew by an annualized 4.9% in the third quarter and is expected to be around 1.9% for all of 2023.
- The US annual inflation rate (CPI) went up to 3.4% in December.
- The labor market continues to be strong with the US unemployment rate at 3.7% in December.

PREVIEW

- Global uncertainty is high with recession risk elevated.
- US consumer confidence is rising, but so is credit card debt.
- A significant acceleration in growth seems unlikely.

BOND MARKETS

FED Pivots, Bonds Have Best Month in 33 Years

REVIEW

- The Global Aggregate Bond index increased by 8.1% for the quarter and 5.7% for the year.
- The US Aggregate Bond index increased by 6.8% for the quarter and 5.5% for the year.
- The FED kept the federal funds rate at a 22-year high of 5.25%-5.5% in its December 2023 meeting.
- The US 10-Year Treasury rate fell 70 bps to 3.9%.

PREVIEW

- US bond market prices in several rate cuts in 2024.
- The bond market will likely remain volatile.
- Bonds remain attractive, with positive real yields, protection on the downside and attractive total return on the upside.

DOMESTIC STOCKS

4th Quarterly Rally and a Very Strong Year for a Few

REVIEW

- The S&P 500 returned 11.7% for the quarter and 26.3% for the year.
- The S&P 500 forward P/E ratio increased from 17.8 to 19.5: 17.6% above the index' 25-year average of 16.6.
- The Russell 3000 *Growth* outperformed the Russell 3000 *Value* index for the quarter, 14.1% vs. 9.8% and whopping 41.2% vs. 11.7% for the year.

PREVIEW

- Earnings expectations will be a challenge to meet.
- Valuations are stretched in several areas of the market.
- We prefer higher quality stocks in our model portfolios and have an overweight to the value style.

INTERNATIONAL STOCKS

Chinese Economic Growth and Markets Disappoint

REVIEW

- The non-US developed market, MSCI ACWI ex-US Index, returned 9.8% for the quarter and 15.6% for the year.
- The emerging market, MSCI EM index, returned 7.9% for the quarter and 9.8% for the year.
- The valuation gap to the US market increased to 34%, which is 18% wider than the 20-year average historical discount of 16%.

PREVIEW

- Geopolitical and economic headwinds remain challenging.
- Relative to the US, valuations are compelling, which provides opportunities.
- We continue to allocate outside the US in our global model portfolios with an overweight to higher quality and value.

UNCERTAINTIES & ALL STAR FINANCIAL'S ACTIONS

2020 :: COVID-19 FEARS AND REALITY RATTLE MARKETS

UNCERTAINTIES

- Pandemic
- Volatility
- 30% Drop
- Stimulus
- Supply Chain

ACTIONS

- Reduced equity by 10% in December 2019
- Sold 15% to Cash in March
- Held cash at upper level of IPS



Stocks	60%
Bonds	40%
Alternatives	0%
Cash	0%



Stocks	50%
Bonds	34%
Alternatives	0%
Cash	16%



Stocks	62%
Bonds	30%
Alternatives	0%
Cash	8%

2021 :: THE ROLL OF FIXED INCOME HAS CHANGED

UNCERTAINTIES

- Interest Rates
- Valuations
- Re-opening
- Vaccines

ACTIONS

- Hedged Stock
- Reduce Bonds
- Buy Buffers
- Increase Cash



Stocks	62%
Bonds	30%
Alternatives	0%
Cash	8%



Stocks	68%
Bonds	21%
Alternatives	11%
Cash	0%

2022 :: THE YEAR DIVERSIFICATION HIT RESET

UNCERTAINTIES

- 60/40 worst year ever
- Russia/Ukraine
- Inflation
- Inverted Yield Curve

ACTIONS

- Added Alternatives
- Overweight Value to Growth
- Reduced Bonds



Stocks	68%
Bonds	21%
Alternatives	11%
Cash	0%



Stocks	62%
Bonds	18%
Alternatives	20%
Cash	0%



Stock - Growth	20%
Stock - Value	45%
Bonds	23%
Alternatives	12%
Cash	0%

2023 :: BONDS WILL COME TO BENEFIT YOU

UNCERTAINTIES

- Rate Hikes
- Land Wars
- Housing stalls
- Political turmoil
- Silicon Valley Bank

ACTIONS

- Eliminated Alternatives
- Return to Bonds
- Overweight Bonds by 8%



Stock - Growth	20%
Stock - Value	45%
Bonds	23%
Alternatives	12%
Cash	0%



Stock - Growth	17%
Stock - Value	40%
Bonds	38%
Alternatives	0%
Cash	5%



Stock - Growth	25%
Stock - Value	30%
Bonds	40%
Alternatives	0%
Cash	5%

PERFORMANCE UPDATE :: 4th QUARTER 2023

Market Index	4 th Qtr	1 Year	3 Year	5 Year
MSCI ACWI All Cap NR USD	11.1	21.5	5.4	11.5
MSCI ACWI Ex USA NR USD	9.8	15.6	1.5	7.1
Russell 3000 TR USD	12.1	26.0	8.5	15.2
S&P 500 TR USD	11.7	26.3	10.0	15.7
DJ Industrial Average TR USD	13.1	16.2	9.4	12.5
S&P MidCap 400 TR	11.7	16.4	8.1	12.6
Russell 2000 TR USD	14.0	16.9	2.2	10.0
NASDAQ Composite TR USD	13.8	44.7	6.0	18.8
MSCI EAFE NR USD	10.4	18.3	4.0	8.2
MSCI EM NR USD	7.9	9.8	-5.1	3.7
Bloomberg Global Aggregate TR USD	8.1	5.7	-5.5	-0.3
Bloomberg US Government TR USD	5.6	4.1	-3.7	0.6
Bloomberg US Credit TR USD	8.2	8.2	-3.2	2.4
Bloomberg US Agg Bond TR USD	6.8	5.5	-3.3	1.1
Bloomberg High Yield Corporate TR USD	7.2	13.5	2.0	5.4

The above after-fee annualized total returns and betas represent All Star Financial composite model performance. Your portfolio's actual returns and betas 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

In the 48 months since COVID turned our lives upside down we have seen the good, bad, and ugly of what the investment universe can provide. Different risks have different solutions, and we have unloaded our toolbelt in these four years.

Risks & Solutions:

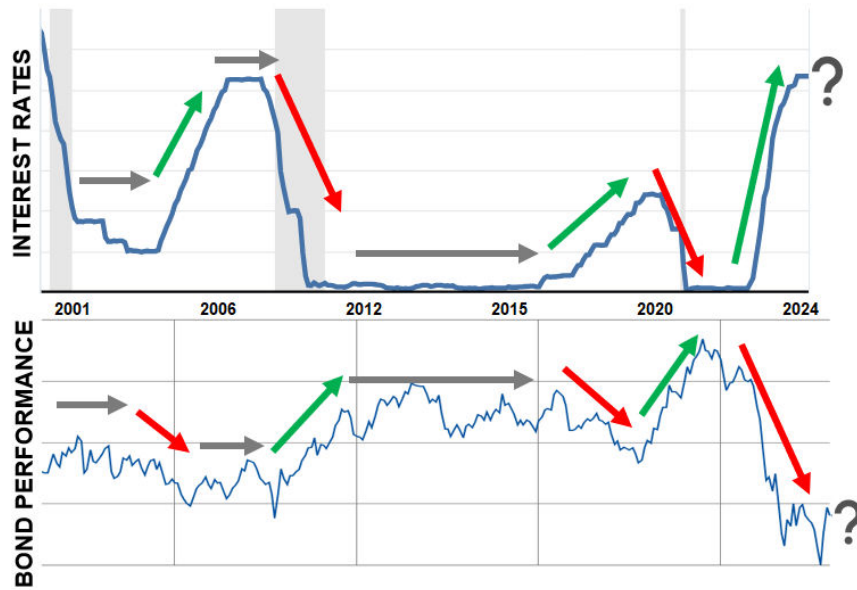
- A 30% market drop: Cash and hedged equity.
- A rally spurred by endless government stimulus: dollar cost averaging into the market.
- The worst year in the history of fixed income: buffered equity and extreme underweights to bonds.
- A burst tech bubble: Large Cap Value stocks.
- A tech rally: NASDAQ Index investing.
- Interest Rate spike: Alternatives and short duration.

2024 represents the windshield. It cannot be predicted by the *events* of the past, but it can guide us to protecting against uncertainty. You have been disciplined enough to save and accumulate your nest egg, All Star Financial will help you reduce volatility and protect your lifestyle into and during retirement.

REVISITING BOND PRICES & INTEREST RATES

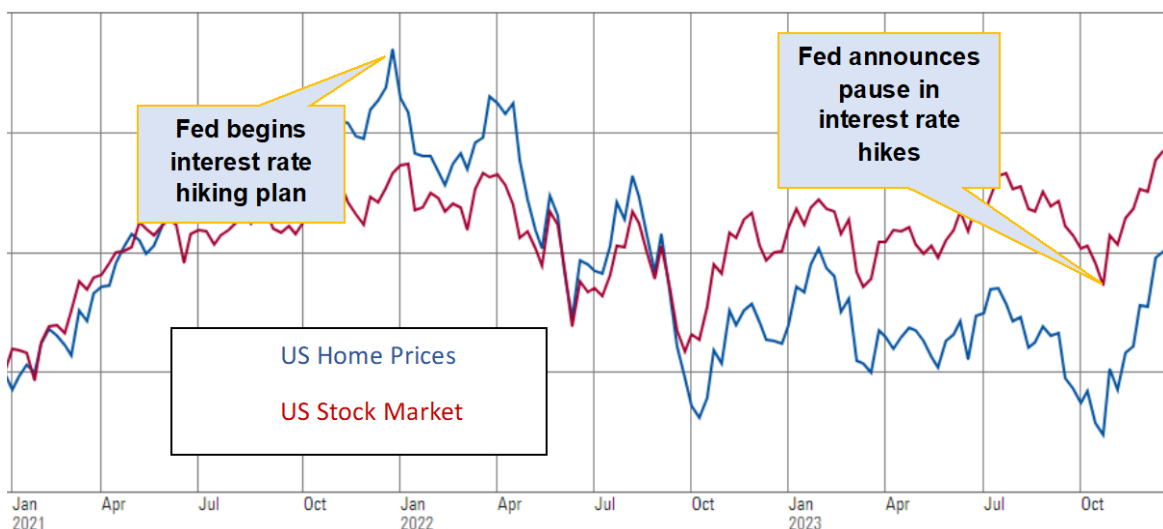
WHAT'S NEXT FOR BONDS?

Bonds and Interest Rates are inversely related. A fundamental principle of bond investing is that when interest rates go up, bond prices go down. As interest rates are now at 25 year highs, the next likely move is down. In that scenario, bond prices will move up.



WHAT HAPPENED IN THE FOURTH QUARTER OF 2023?

You may have noticed that ever since late October your retirement accounts, stocks, bonds, and home values have been rising rapidly. What happened? The Federal Reserve announced on October 18th that they liked the data they had been seeing on inflation and planned to pause interest rates hikes. The punch bowl was back! Investors piled back into risky assets and gobbled up anything paying close to 5% interest.



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 person in mind – to serve you, our valued client.



MEET THE ALL STAR FINANCIAL TAX TEAM

2023 Tax season is underway! If you are a tax client, you would have received your Organizer in the mail within the last week with a **10% discount** offer for individual returns when you provide us your tax documents by 2/7/24!



ASF GIVES BACK TO THE COMMUNITY

Our team spent the afternoon packing food for OPEN ARMS, a non-profit that prepares and delivers nourishing meals free of charge to critically ill Minnesotans and their loved ones. To learn more visit www.openarmsmn.org



BOB'S CORNER

ALL STAR FINANCIAL STAYS DISCIPLINED

When we talk about the success that All Star has had through the years, the word disciplined is at the beginning of the sentence and asset allocation takes care of everything else. It does not matter what the headwinds are or why they are. Whether it is the COVID-19 pandemic supply chain issues, the paradigm shifts with bonds, war in Ukraine, interest rates, volatility, unemployment, employment, upcoming elections, or inflation, having the patience to be disciplined every step of the way creates a winning game plan. As value managers (both stocks and bonds), being of value is so very important. We talk about being ahead of the curve and buying in early and selling early.

The review mirror is so very important to gain perspective (history of economics and markets), but we need to look forward through the front windshield to know where we are going and design a plan that gets us to the place that we want to be able to turn early and trust the map. That is why asset allocation gives us clarity and confidence. If we just looked through the rearview mirror to get home tonight, we would more than likely crash. Four years of significant volatility caused by so many uncertainties tested our discipline tremendously and we love to tell you that it is still working for you. We are still winning the race.

We look forward to continuing to take the slightly more conservative route in 2024 and still delivering what we promised... *It's not how much you make it's how much you keep. Stay patient.*

If you know anyone who could benefit by having a conversation with us, feel free to pass along our contact information. We would be happy to have a conversation with them.

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