

ALL STAR FINANCIAL REVIEW & PREVIEW

2024 FIRST QUARTER
VOLUME 31 | ISSUE 1

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ANNOUNCEMENTS

- The markets and our office will be closed on May 27th for Memorial Day; June 19th for Juneteenth and July 4th for Independence Day
- SAVE THE DATE!
September 20, 2024
Client Celebration Event - We hope to see you!

**ALL
STAR
FINANCIAL**
Build Wealth. Retain Wealth.

WHY DOES MINIMIZING VOLATILITY MATTER?

Less substantial ups and downs in your portfolio can lead to higher dollars over time. As you can see here, not all average annual returns are created equal. By minimizing the effects of volatility, you end up with more money in your pocket.

EFFECT OF VOLATILITY ON A \$100,000 PORTFOLIO							
	Year 1	Year 2	Year 3	Year 4	Year 5	Average Annual Return	Ending Portfolio Value
Option 1	7%	7%	7%	7%	7%	7%	\$140,255
Option 2	15%	20%	0%	-15%	15%	7%	\$134,895

HOW DO YOU MINIMIZE VOLATILITY?

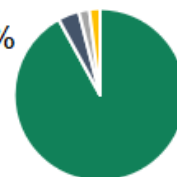
Long ago, Harry Markowitz won a Nobel Prize for his financial acumen and conclusion in the mid 1950's. He concluded that market timing accounts for only 2% of the total return of your portfolio. Individual investment selection is another 4% of the equation which leaves 92% of your performance reliant on your asset allocation.

Decisions that can lead to better long term outcomes over the course of a market cycle include:

- Proportion of stocks vs fixed income at the right time in the economic cycle.
- Owning different quality and durations of bonds during the ups and downs of interest rates.
- Value vs Growth stocks at different stock market valuations.
- Choosing Large Cap companies vs Small Cap companies when entering or leaving recessions.

COMPONENTS OF PORTFOLIO OUTCOMES

■ Asset Allocation	92%
■ Security Selection	4%
■ Market Timing	2%
■ Other Factors	2%



Source: Brinson, Hood & Beebower, Financial Analysts Journal, 1986

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

Growth Surprises and Sticky Inflation

REVIEW

- The US economy (GDP) grew by an annualized 3.4% in the fourth quarter and 2.5% for 2023.
- The US annual inflation rate (CPI) accelerated to 3.5% in March.
- The unemployment rate fell to 3.8% and has remained below 4% for two years, the longest streak since the late 1960s.

PREVIEW

- Uncertainty around inflation dominates the global economic landscape with expectations of higher rates for longer.
- The US is experiencing above-trend growth in real GDP supported by surprisingly strong job growth.
- We expect US growth to decelerate in response to fiscal tightening and high interest rates going forward.

BOND MARKETS

Don't Fight the FED and Rates Rise

REVIEW

- The US Universal Bond index decreased by -0.5% for the quarter. The US Aggregate Bond index decreased by -0.8% for the quarter.
- The Federal Reserve left the fed funds rate at a 23-year high of 5.25%-5.50% for a fifth meeting in March 2024.
- The US 10-Year Treasury rate increased 31 bps to 4.2% in the first quarter.

PREVIEW

- The US bond market adjusts and prices in less rate cuts in 2024.
- Yield curve normalizes from record inversion.
- Fixed income offers attractive yields and protection against an economic slowdown.

DOMESTIC STOCKS

AI Stocks, New Equity Market Highs & Stretched Valuations

REVIEW

- The S&P 500 returned 10.6% for the quarter.
- The S&P 500 forward P/E ratio increased from 19.5 to 21.0: 26.1% above the index' 25-year average of 16.6.
- The Russell 3000 *Growth* outperformed the Russell 3000 *Value* index for the quarter, 11.2% vs. 8.6%.

PREVIEW

- Corporations must deliver on high earnings growth expectations.
- History tells us that when equity valuations are as high as they are now, corrections in parts of the market are common.
- With the weight of the top 10 stocks in S&P 500 at a 25-year high (~34%), we see opportunities for a broader equity market participation.

INTERNATIONAL STOCKS

Geopolitical Tension Rising

REVIEW

- The non-US developed market, MSCI ACWI ex-US Index, returned 4.7% for the quarter.
- The emerging market, MSCI EM index, returned 2.4% for the quarter.
- The valuation gap to the US market increased to 35%, which is 18% wider than the 20-year average historical discount of 17%.

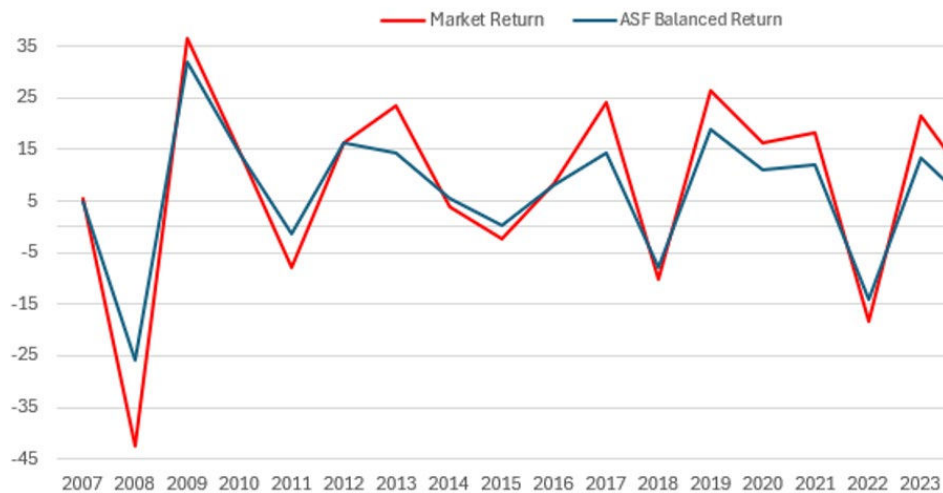
PREVIEW

- Diversification across regions is increasingly important as we see a divergence in the economic cycles.
- Deep valuation discounts support international equity allocations for long-term investors.
- Geopolitical tension intensifies in the middle east with global implications.

HOW DOES ASF MINIMIZE VOLATILITY?

We believe the ASF portfolio’s ability to help protect in negative markets and achieve less volatility than the indexes will create a better compounding effect over the long-term. Numbers can be deceiving. Two investments with the same average rate of return after a period of time doesn’t necessarily generate the same result. Consistency matters.

A focus on limiting volatility can help produce a superior compounding rate of return.



MANAGING VOLATILITY THROUGH DYNAMIC ASSET ALLOCATION

We advise on long-term strategic asset allocation using dynamic decision making to add value to client portfolios. Since 2020, our investment committee has implemented 17 significant asset allocation changes to reduce volatility and benefit clients.

Asset Allocation Changes in the ASF Balanced Portfolio Since 2019

	2019	2020	2021	2022	2023
Stocks	60%	53%	66%	60%	54%
Fixed Income	35%	27%	18%	35%	41%
Alternatives	0%	6%	11%	0%	0%
Cash	5%	14%	5%	5%	5%
Asset Allocation Decisions	Took chips off the table prior to 2020 due to higher than normal equity valuations.	Reduced equity exposure before and during COVID. At market bottom we were 10-15% below our equity targets.	Reduced bond exposure due to unfavorable rates, introduced hedged equities to help diminish equity volatility.	As interest rates climbed to 4% our committee added fixed income back to the portfolio at higher yields.	Increased fixed income overweight to 6% above a neutral 60/40 allocation.

PERFORMANCE UPDATE :: 1st QUARTER 2024

SUMMARY

Market Index as of 3/31/24	1 st Qtr	1 Year	3 Year	5 Year
MSCI ACWI All Cap NR USD	7.7	22.3	6.2	10.5
MSCI ACWI Ex USA NR USD	4.7	13.2	1.9	6.0
Russell 3000 TR USD	10.0	29.2	9.8	14.3
S&P 500 TR USD	10.6	29.8	11.5	15.0
DJ Industrial Average TR USD	6.1	22.1	8.7	11.3
S&P MidCap 400 TR	10.0	23.3	7.0	11.7
Russell 2000 TR USD	5.2	19.7	-0.1	8.1
NASDAQ Composite TR USD	9.3	35.0	8.2	17.2
MSCI EAFE NR USD	5.8	15.3	4.8	7.3
MSCI EM NR USD	2.4	8.1	-5.0	2.2
Bloomberg US Universal TR USD	-0.5	2.7	-2.1	0.7
Bloomberg Global Aggregate TR USD	-2.1	0.5	-4.7	-1.2
Bloomberg US Government TR USD	-0.9	0.1	-2.7	0.0
Bloomberg US Credit TR USD	-0.4	4.1	-1.9	1.4
Bloomberg US Agg Bond TR USD	-0.8	1.7	-2.5	0.4
Bloomberg High Yield Corporate TR USD	1.5	11.1	2.2	4.2

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.

A growing economy and generally positive financial markets against a backdrop of war, inflation, vile political rhetoric, and investor sentiment is still worse than where we ended in 2020.

What gives?

The nature of the stock market is it tends to perform well until it performs very, very poorly. Only about one out of every ten years do we see a return worse than -10%, but those years on average erase 23% of your portfolio. Reducing your volatility by just 10% in negative years adds another \$15 for every \$100 you earn in the market.

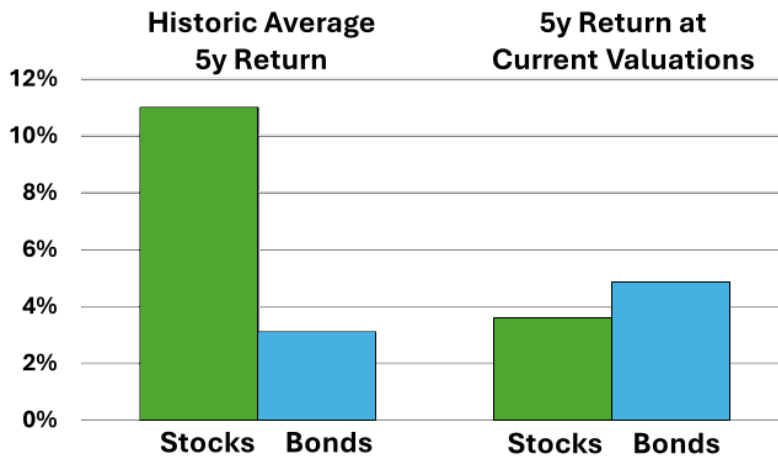
Like home insurance, keeping a protective moat around your financial assets may only be needed once in a great while. When it is needed though, risk protection can be the difference between prosperity and misfortune.

Every decision we make revolves around the goal of minimizing disruptions to your retirement cash flow. You can sleep well at night knowing we are planning for the uncertainties of saving and distributing your personal savings.

2024 OUTLOOK

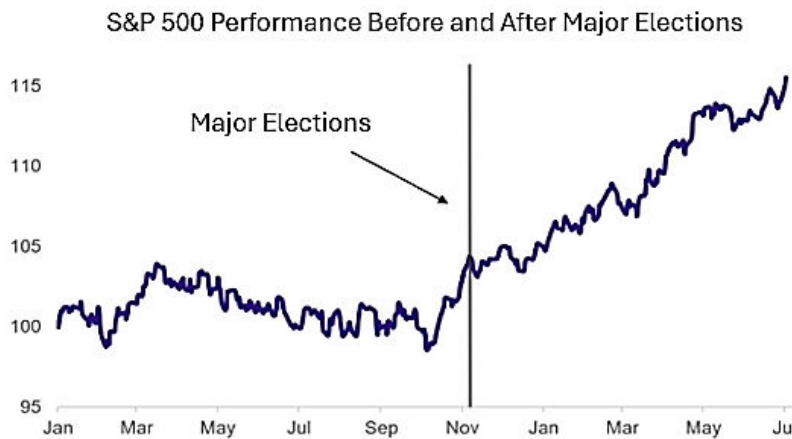
STOCKS vs BONDS

Over most 5-year periods, stocks have outperformed bonds. Both stocks and bonds tend to perform in relation to their starting valuation. In rare occasions, valuations favor bonds over stocks for longer time horizons. With current starting bond yields near 5% and stocks selling for 21 times earnings, history suggests that bonds offer a more attractive outlook.



ELECTION IMPACT

If there is one certainty in our financial markets, it is that investors dislike uncertainty. Elections bring great uncertainty to businesses through tax policy, regulations, and fiscal strategy. In the end, businesses are adaptable and tend to perform better after major elections are decided.



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.

Save THE DATE

CELEBRATION EVENT

Mark your calendar for our annual 2024 Celebration Event

September 20, 2024

At the Minikahda Club

Special Guest to be announced 😊

We hope you will join us for an evening of fun and LAUGHTER!



ASF GIVES BACK TO THE COMMUNITY

ACES – Athletes Committed to Educating Students is a wonderful organization that is committed in tackling the academic opportunity gap and helping to prepare students to succeed in school, career, and community – all through the lens of sports! All Star Financial has been a proud sponsor of their annual fund raising gala and this year, we once again were the lucky winners of the live auction item – a suite at the MN Wild!

BOB'S CORNER

After over 37 years of wealth management service to our faithful clients, I want to say **thank you** for your continued belief in the discipline process, *it's not how much you make, it's how much you keep.*

Throughout these years, we have managed our clients through 17 downturns of greater than -10%. And through these events, we have protected your assets so you can enjoy retirement and know that your cash flow needs will be met.

With this newsletter, we have chosen to focus on the fact that we will see the 18th downturn of greater than -10% and we are prepared for the uncertain times ahead.

Over the last four years, we have faced a huge number of hurdles, significantly more than any of the past four-year time periods since 1987. Please be assured that we have your best interest at heart.

Clients ask if we are growing, and the answer is a big YES! The more volatility and uncertainty that we face as a country, the more our discipline helps you. It can also help your friends, neighbors, and colleagues. Please mention our process and the fact that we would love to meet and show them the All Star Financial fiduciary process.

Have a great spring!

Bob and The All Star Financial Team

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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