

# MainStreet Advisors Financial Market Update

August 14, 2009  
[page 1]

## Economic Update

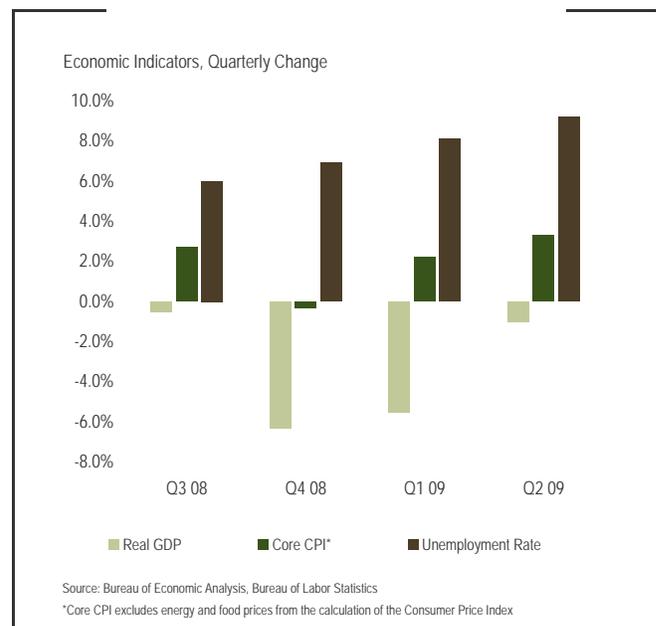
The Reuters/University of Michigan's Consumer sentiment index dropped for the second month in a row, falling from 66.0 to 63.2. This drop was mainly due to weakness in the current conditions component, which fell from 70.5 to 64.9, and a drop in the main component, consumer expectations, which fell from 63.2 to 62.1. In a related report, the Commerce Department announced that U.S. retail sales fell 0.1% in July. Excluding automobiles, retail sales dropped 0.6%, with decreased purchases of furniture, electronics, building materials, groceries, and sporting goods. Both of these reports suggest that the consumer is still constraining spending, despite other positive economic signals.

The Department of Commerce reported this week that total exports for June were \$125.8 billion and imports were \$152.8 billion, resulting in a goods and services deficit of \$27.0 billion. This increase from the \$26.0 billion deficit in May was caused mainly by the high cost of oil imports, which outweighed gains in industrial supplies and capital goods exports.

Although the Federal Open Market Committee judged the economy to be leveling out, they decided to hold interest rates at record lows and pledged to keep them there for an extended period to aid in economic recovery. Fed officials also decided to extend the \$300 billion stimulus plan to buy U.S. Treasuries to October in an effort to promote a smooth transition out of this program.

In July, industrial production rose for the first time in 9 months, with a 0.5% increase, according to a report issued by the Federal Reserve. This increase was driven primarily by a 20.1% increase in the production of motor vehicles and parts.

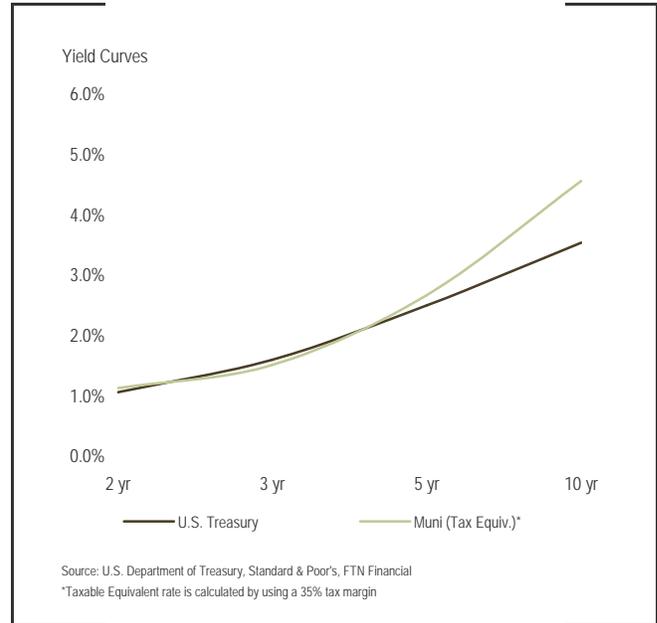
According to the Labor Department, the Consumer Price Index remained unchanged in July after a 0.7% increase in June, while the core CPI rose 0.1%. This is considered a positive sign for the economy, signifying that the Federal Reserve's injections into the banking system have not given rise to faster inflation.



Aug. 11 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.0%
Aug. 11 <sup>th</sup>	Wholesale Inventories, June Monthly Chg.	-1.7%
Aug. 12 <sup>th</sup>	MBA Purchase Applications	267.2
Aug. 12 <sup>th</sup>	International Trade Balance Level, June	-27.0B
Aug. 12 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	2.5M Barrels
Aug. 13 <sup>th</sup>	Retail Sales, July Monthly Chg.	-0.1%
Aug. 13 <sup>th</sup>	Initial Jobless Claims ( Week ending 8/8)	558,000
Aug. 13 <sup>th</sup>	Export Prices, July Monthly Chg.	-0.3%
Aug. 13 <sup>th</sup>	Import Prices, July Monthly Chg.	-0.7%
Aug. 13 <sup>th</sup>	Business Inventories, June Monthly Chg.	-1.1%
Aug. 13 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	63 bcf
Aug. 14 <sup>th</sup>	Consumer Price Index, July Monthly Chg.	0.0%
Aug. 14 <sup>th</sup>	Industrial Production, July Monthly Chg.	0.5%

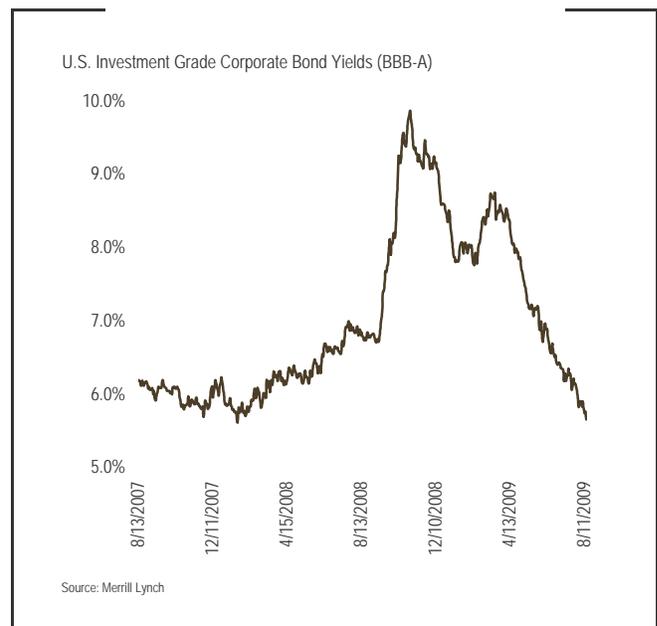
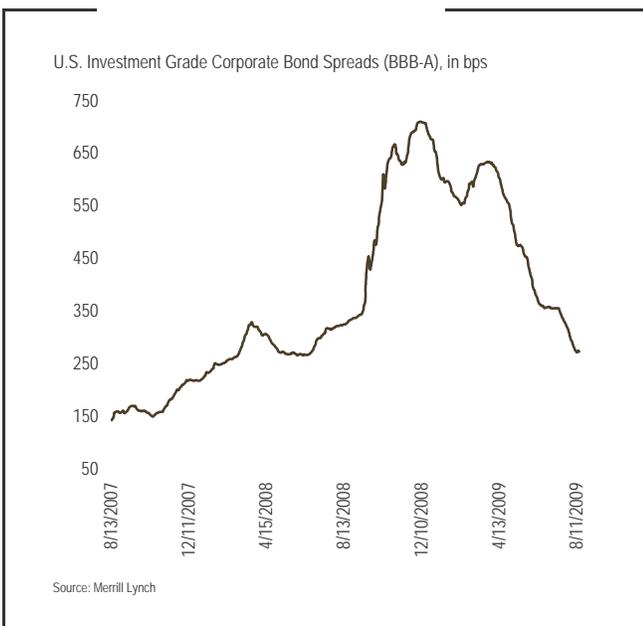
Bond Market Update

U.S. Treasuries rallied for the week as weaker than expected economic data fueled demand for low risk government debt and spurred higher than forecasted demand for the record \$15 billion auction of 30-year bonds. Ten-year notes rose Friday after the Reuters/University of Michigan preliminary index of consumer sentiment fell well below economist's forecasts. This decrease in consumer confidence along with a weak inflation report drove the ten-year to its largest weekly gain in almost ten months. Because of this week's soft economic data, some market strategists now feel the economic recovery may be slower than anticipated. This will likely curb the inflation outlook, creating a more bullish environment for bonds. The spread, or difference in yield, between 10-year notes and Treasury Inflation Protected Securities fell to 1.80% from 2.00% last week reflecting a muted outlook for rising consumer prices among traders. Meanwhile, Europe's corporate bond rally fizzled this week amid lower yields offered on new debt issues. Investors had been enticed by high spreads in this sector, with investment grade securities trading in euros increasing by 10.2% for the year, according to Merrill Lynch.



Issue	8.7.09	8.14.09	Change
3 month T-Bill	0.19%	0.18%	-0.01%
2-Year Treasury	1.32%	1.07%	-0.25%
5-Year Treasury	2.84%	2.51%	-0.33%
10-Year Treasury	3.89%	3.55%	-0.34%
30-Year Treasury	4.61%	4.41%	-0.20%

Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



Stock Market Update

Investors sent stocks on a roller coaster this week as early losses were offset by mid-week gains, only to be dragged back down by weak the consumer sentiment numbers released on Friday. The Dow Jones Industrial Average shed 48.67 points, or 0.52%, to end the week at 9,321.40. The broader S&P 500 closed at 1,004.09, 6.39 points, or 0.63%, lower than last week.

Consumer discretionary stocks led the downside, losing 2.34% this week followed by industrial and materials stocks, which lost 1.55% and 1.39%, respectively. The defensive healthcare and consumer staples sectors contributed positively to the performance of the S&P 500, gaining 1.09% and 0.49%, respectively.

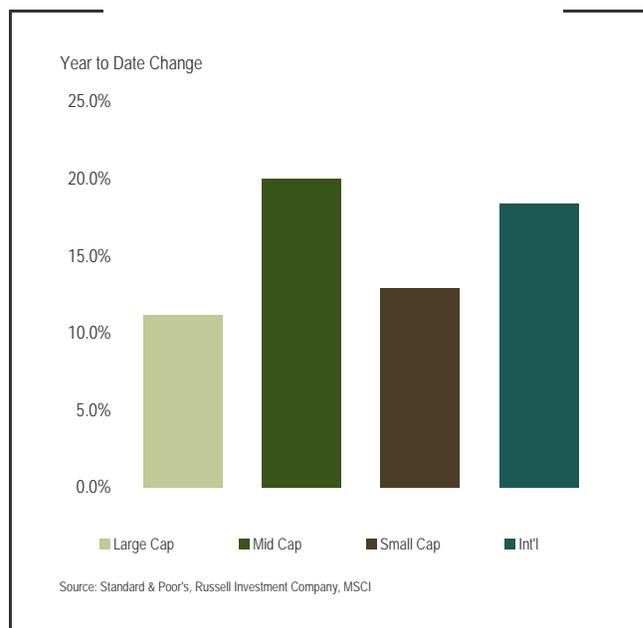
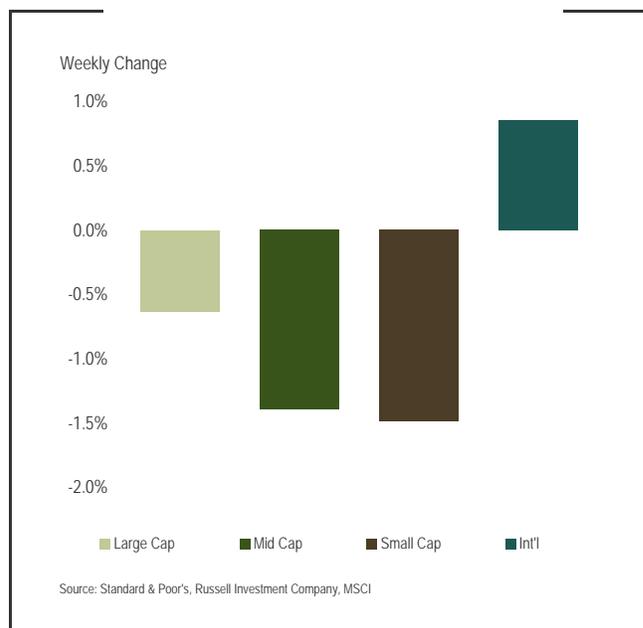
Boeing Corp (BA) lost 3.75% on Friday, the largest percentage loss of the 30 DJIA companies, when the company announced further problems with its 787 Dreamliner jet. Boeing announced that over a month ago it had stopped work on two sections of the 787 when the company found defects in parts built by an Italian vendor; the defects were found on 23 of the company's airplanes.

On Friday, rumors swirled about the potential takeover of Colonial BancGroup Inc (CNB) by BB&T (BBT), according to Bloomberg. Colonial, the second largest lender in Alabama, has been saddled with more than \$1.7 billion in sour Florida real estate loans. The deal, the largest in 2009, is said to be brokered by the FDIC and would make BB&T the ninth largest bank by assets and will give them a solid footprint in Alabama.

Stocks in Europe sold off as well with the DJ Euro Stoxx 50 losing 1.36% on the week. Stocks in Japan, which end trading before many economic reports are released in the U.S., rose this week with the NIKKEI 225 gaining 1.78%.

Issue	8.7.09	8.14.09	Change
Dow Jones	9,370.07	9,321.40	-0.52%
S&P 500	1,010.48	1,004.09	-0.63%
NASDAQ	200.25	1,985.52	891.52%
Russell 1000 Growth	443.53	441.27	-0.51%
S&P MidCap 400	655.1	645.99	-1.39%
Russell 2000	572.4	563.9	-1.48%
MSCI EAFE	1,452.56	1,464.94	0.85%
MSCI EM	855.52	855.64	0.01%
MSCI Small Cap	131.47	133.33	1.42%

Prices reflect most recent data available at the time of publication  
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch.



Alternative Investments Market Update

Crude Oil tumbled on Friday after reports that U.S. consumer confidence unexpectedly declined in August, marking the second consecutive month of decreasing confidence and increasing skepticism that fuel demand will recover by the end of this year. Currency movements also contributed to the fall in oil; investors found less appeal in commodities for an inflation hedge as the dollar gained against the Euro. For the week oil futures fell 4.82%, with most of the losses felt on Friday.

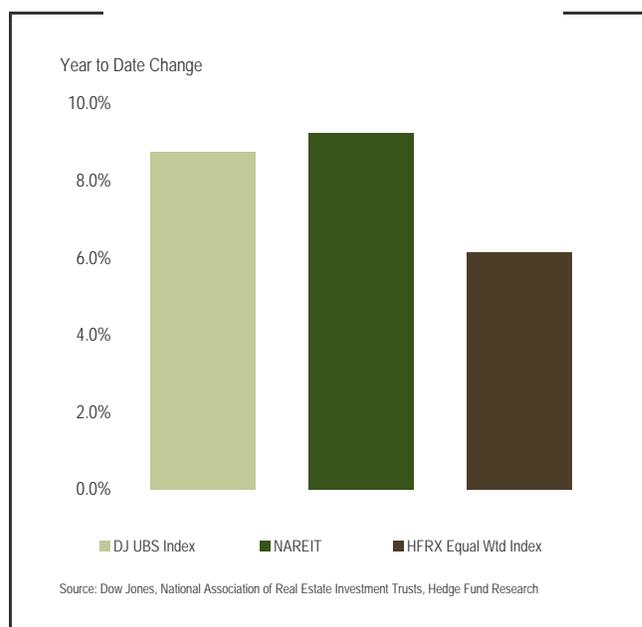
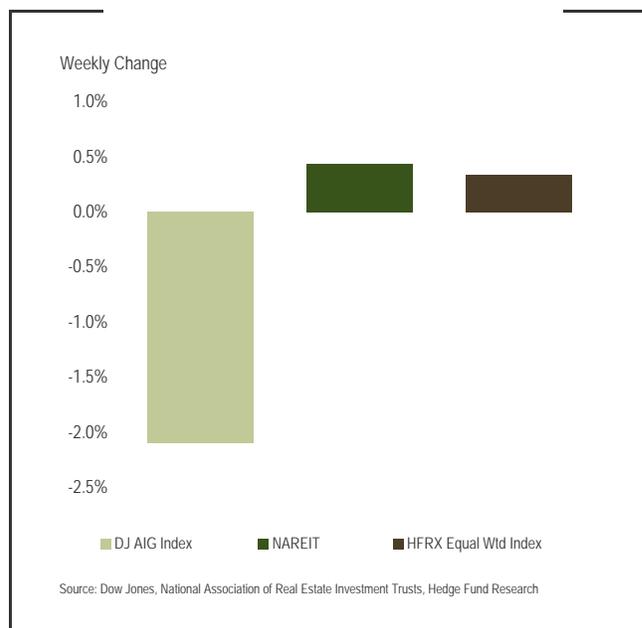
Copper inventories moved up for the third straight week, jumping 20% to the highest levels in over a year. Prices also boomed, gaining 2.15% on the week. Gold prices declined this week, dropping 1.13% overall. This can be attributed to the increasing strength of the dollar and the dismal CPI report that reflected the sharpest year-over-year decline in nearly 60 years, both of which reduce gold's appeal as a hedge against inflation.

Many of the largest American food companies have called for an easing of import restrictions on sugar, citing that the severe global shortage could force them to raise the prices of cereals, candy bars, cookies, chewing gum, and countless other products that use the resource. Prices of sugar futures contracts have exploded this year, gaining 95% year-to-date and recently hitting a 28-year high on speculation that the supply shortage could inflate prices to as high as 40 cents a pound. Brazil, the largest sugar producer in the world, has had a surplus of wet weather that has cut into production. The country is also diverting large amounts of its cane crop to making ethanol fuel. These events could factor into a prolonged shortage. Friday marked the first time in seven sessions that sugar prices declined, reflecting the reluctance of some investors to hold out for the forecasted gains.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	959.50	948.70	-1.13%
Crude Oil Futures	70.93	67.51	-4.82%
Copper	2.79	2.85	2.15%
Sugar	20.95	21.89	4.49%
HFRX Equal Wtd. Strat. Index	1,061.69	1,065.24	0.33%
HFRX Equity Hedge Index	1,092.73	1,090.43	-0.21%
HFRX Equity Market Neutral	990.20	994.37	0.42%
HFRX Event Driven	1,283.59	1,290.47	0.54%
HFRX Merger Arbitrage	1,389.65	1,401.56	0.86%
Dow Jones UBS Commodity Index	130.24	127.51	-2.10%
FTSE/NAREIT All REIT	95.65	96.07	0.44%

<sup>1</sup> Prices reflect most recent data available at the time of publication

Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research, Bloomberg, The Wall Street Journal.



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