# MainStreet Advisors
# Financial Market Update

October 15, 2010


## Economic Update

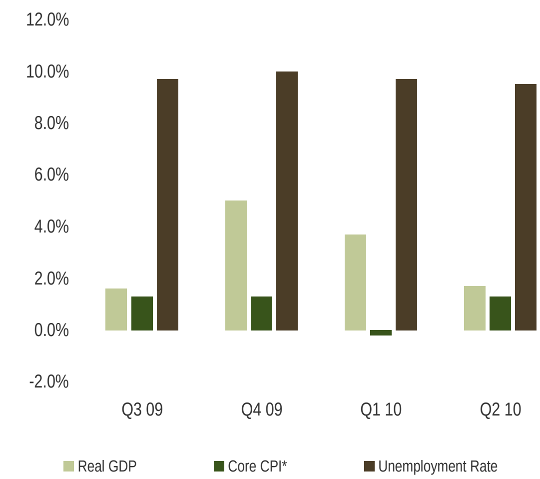
Consumer sentiment pulled back early this month, according to the latest Thomson Reuters/University of Michigan Surveys of Consumers. Reuters reported that consumers' appraisal of government economic policies declined to the weakest level in nearly two years. In addition, sentiment toward the current state of the economy reached the lowest level since November 2009. Despite this weakening, data released by the U.S. Census Bureau reflected a 0.6% gain in September retail sales, 7.3% higher than one year ago. Increased sales primarily reflected a surge in auto sales. Separately, the Census Bureau reported that manufacturer and trade inventories climbed 0.6% in August, marking another modest gain. Indeed, U.S. consumers have continued to spend. The Commerce Department reported that the U.S. international trade deficit increased to $46.3 billion in August, as exports climbed $0.3 billion and imports surged $4.1 billion. Imports were primarily led higher by consumer goods, capital goods, and auto-related goods. U.S. exports of capital goods decreased $1.5 billion.

Minutes from the September 21 Federal Open Market Committee (FOMC) meeting were released Tuesday showing disagreement between committee members of when to initiate another round of quantitative easing. Some members wished to act soon while others wanted to wait for additional economic data confirming it is in fact needed. The Fed remains confident in saying the "economic recovery was continuing, albeit slowly." Committee members made it clear that low inflation is now of primary concern and that interest rates will stay near zero for an "extended period."

Gauges of inflation released this week by the U.S. Department of Labor continued to reflect disinflation, or declining inflation, in September. The Consumer Price Index (CPI) advanced 0.1% for the month, up 1.1% in the last twelve months and lower than levels typically supportive of economic growth and price stability. Excluding food and energy, CPI remained flat in September, which resulted in a 0.8% annual increase. The Producer Price Index increased 0.4% last month—the index posted a 4.0% increase since September 2009.

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, National Bureau of Economic Research, the Institute for Supply Management, the National Association of Realtors.

Economic Indicators, Quarterly Change




Source: Bureau of Economic Analysis, Bureau of Labor Statistics

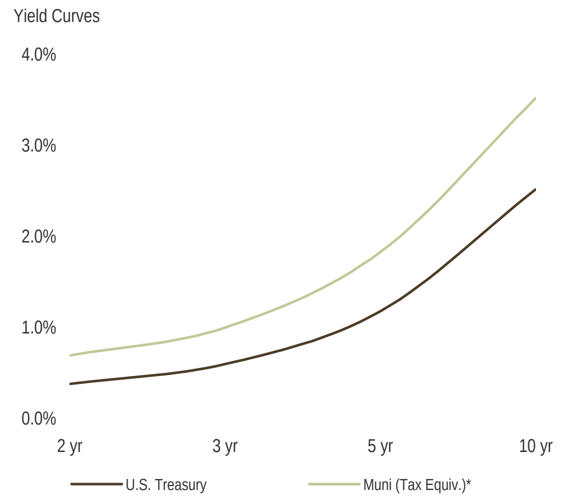
*Core CPI excludes energy and food prices from the calculation of the Consumer Price Index

| | | |
|---|---|---|
| Oct. 12th | ICSC-Goldman Same Store Sales, Wkly. Chg. | 0.8% |
| Oct. 13th | MBA Purchase Applications Index, Wkly. Chg. | -8.5% |
| Oct. 13th | Import Prices, Sept. Monthly Chg. | -0.3% |
| Oct. 13th | Export Prices, Sept. Monthly Chg. | 0.6% |
| Oct. 14th | International Trade Balance Level, August | -46.3B |
| Oct. 14th | Producer Price Index, Sept. Monthly Chg. | 0.4% |
| Oct. 14th | Initial Jobless Claims ( Week ending 10/9) | 462,000 |
| Oct. 14th | EIA Natural Gas Report, Wkly. Chg. | 91 bcf |
| Oct. 14th | EIA Petroleum Status Report, Wkly. Chg. | -0.4M Barrels |
| Oct. 15th | Consumer Price Index, Sept. Monthly Chg. | 0.1% |
| Oct. 15th | Retail Sales, Sept. Monthly Chg. | 0.6% |
| Oct. 15th | Empire State Mfg Survey, October | 15.73 |
| Oct. 15th | Consumer Sentiment Index, October | 67.9 |
| Oct. 15th | Business Inventories, Aug. Monthly Chg. | 0.6% |

## Bond Market Update

U.S. Treasuries finished the week lower, driving yields on the 30-year bond to a two-month high amid growing confidence the Federal Reserve will succeed in stoking economic growth. Chairman Bernanke commented on Friday that more monetary stimulus may be needed, suggesting additional quantitative easing. Meanwhile, the spread, or difference in yields, between 10-year Treasury Inflation-Protected Securities (TIPS) and 10-year Treasury notes touched 2.14%, the widest level since mid-May. Investors track the 10-year TIPS “breakevens” as a gauge of the market's long-term inflation expectations. They were as low as 1.50% in late August on fears that the economic recovery may slowly peter out. In the forwards market, the five-by-five-year TIPS breakevens, or five-year inflation outlook, recently pushed close to 270 basis points, according to Reuters. However, overall demand for bonds remains robust as this week’s 30-year Japanese Government Bond auction was the strongest in eight years, with a sub-2% yield and a bid to offer ratio of 5.4.

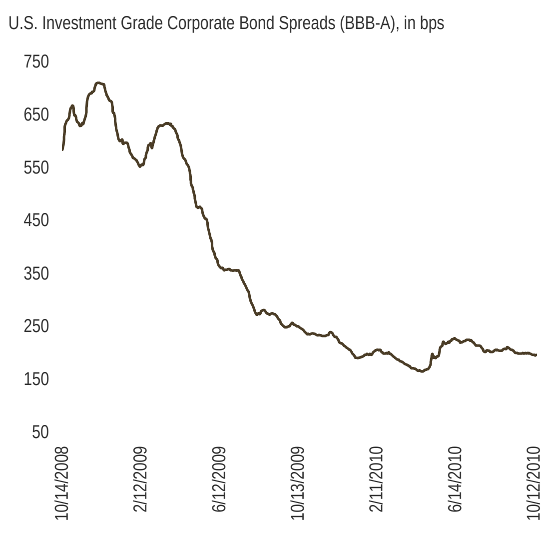
Investors with longer time horizons continue to search for higher-yielding securities above current Treasury yields. Demand for alternative fixed income securities such as municipals, investment grade corporates, high yield bonds, and foreign bonds remains robust.



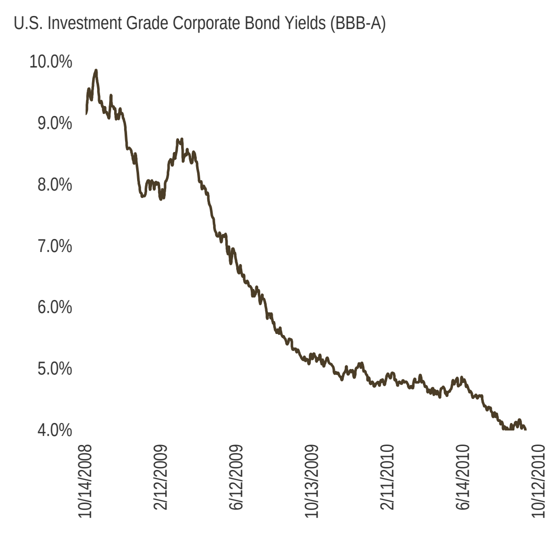

Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

| Issue | 10.8.10 | 10.15.10 | Change |
|---|---|---|---|
| 3 month T-Bill | 0.12% | 0.14% | 0.02% |
| 2-Year Treasury | 0.35% | 0.38% | 0.03% |
| 5-Year Treasury | 1.11% | 1.18% | 0.07% |
| 10-Year Treasury | 2.41% | 2.52% | 0.11% |
| 30-Year Treasury | 3.75% | 3.91% | 0.16% |

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




Source: Merrill Lynch




Source: Merrill Lynch

## Stock Market Update

Strong performance in the technology sector pushed domestic equity markets higher, offsetting a decline in financial stocks that can be attributed to growing concerns regarding ongoing foreclosure documentation issues. Major indices traded higher throughout most of the week as investors were encouraged by enthusiastic reports from several industry giants and the prospect of further measures of quantitative easing from the Federal Reserve. Trading began to waver as the week came to a close amid disappointing economic releases and slumping bank stocks. The S&P 500, Dow Jones Industrial Average, and NASDAQ Composite indices finished up 0.95%, 0.51%, and 2.78% for the week, respectively.

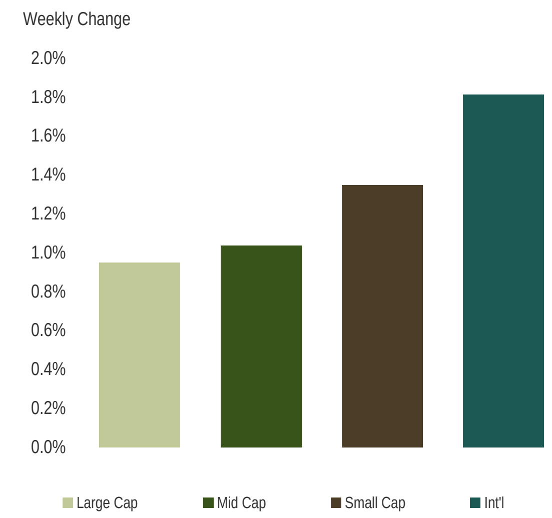
S&P Equity Research lowered its investment rating on Bank of America Corp. (BAC) from "strong buy" to "hold", claiming that the institution is less prepared than its peers for potential future mortgage repurchase demands. Shares of the bank fell 9.09% on the week. J.P. Morgan Chase (JPM) shares finished down 5.49% after the company reported that third-quarter revenue did not meet analyst predictions, despite showing improved profit. Wells Fargo Company (WFC) and Citigroup Inc. (C) also declined, falling 9.13% and 5.73%, respectively.

Google Inc. (GOOG) led technology stocks higher, jumping 12.14% this week after reporting earnings on Thursday that exceeded analyst forecasts. The Internet giant, which posted third quarter revenue of $5.5 billion, retains a dominate position in the online-ad market and predicts heavy growth in its display, mobile, and video segments.

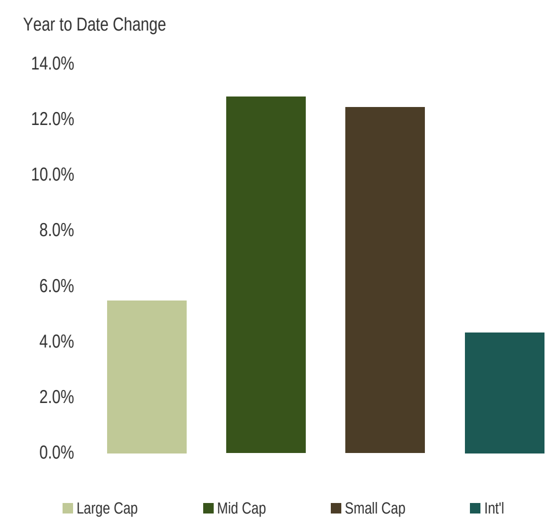
Shares of St. Joe Corp. (JOE) declined after David Einhorn, a short-selling hedge-fund manager at Greenlight Capital, said the company could write-down or take impairments on some of their assets. Apollo Group Inc. (APOL), which reported third quarter earnings that were mostly in-line with expectations, withdrew earnings guidance for 2011 adding to the uncertainty surrounding the company and for-profit education as an industry.

| Issue | 10.8.10 | 10.15.10 | Change |
|---|---|---|---|
| Dow Jones | 11,006.48 | 11,062.78 | 0.51% |
| S&P 500 | 1,165.15 | 1,176.19 | 0.95% |
| NASDAQ | 2,401.91 | 2,468.77 | 2.78% |
| Russell 1000 Growth | 525.76 | 535.88 | 1.92% |
| S&P MidCap 400 | 811.37 | 819.76 | 1.03% |
| Russell 2000 | 693.82 | 703.16 | 1.35% |
| MSCI EAFE | 1,612.09 | 1,641.29 | 1.81% |
| MSCI EM | 1,102.82 | 1,127.20 | 2.21% |
| MSCI Small Cap | 157.20 | 160.22 | 1.92% |

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.




Source: Standard & Poor's, Russell Investment Company, MSCI




Source: Standard & Poor's, Russell Investment Company, MSCI

## Alternative Investments Market Update

The U.S. dollar rallied on Friday causing a sell off in commodities. On Friday, the dollar ignored further confirmation from Fed Chairman Ben Bernanke that quantitative easing is likely and rebounded off 15-year lows against a basket of currencies. However, for the week, gold appreciated $21.70, or 1.61% to settle at $1369.60 per ounce as currency concerns continue to propel investors into precious metals. Crude oil declined for the week after inventory reports proved demand for petroleum products fell to the lowest level in a year and investors sold the commodity to take profits from September's strong rally. However, new data released early in the week indicated China imported 5.67 million barrels of crude oil in September, its highest monthly total. OPEC expanded its forecast for global oil demand growth and expects growth to continue throughout 2011.

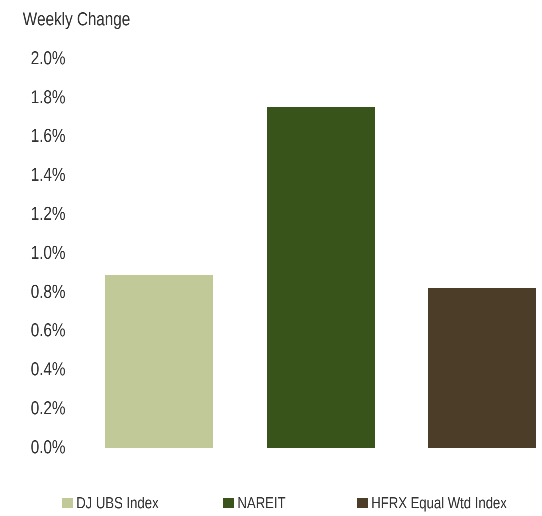
According to the Wall Street Journal, cotton prices were trading at the highest point since the commodity began trading on an exchange 140 years ago before settling slightly lower. Post-recession demand increases and low inventories mixed with supply shortages keep propelling the commodity higher. Mills and merchants are likely to pass along higher costs to end consumers. Early in the week, corn rose to a 2-year high on increased buying stemming from supply concerns. Also, corn demand broadened this week after the administration approved a request from ethanol producers asking for higher concentrations of ethanol in gasoline.

According to BarclayHedge, hedge funds have recouped all losses suffered from the financial crisis, in part due to a surging equity market during the month of September. The Barclay Hedge Fund Index gained 3.63% in September, advancing past the prior high water-mark established at the end of October 2007.

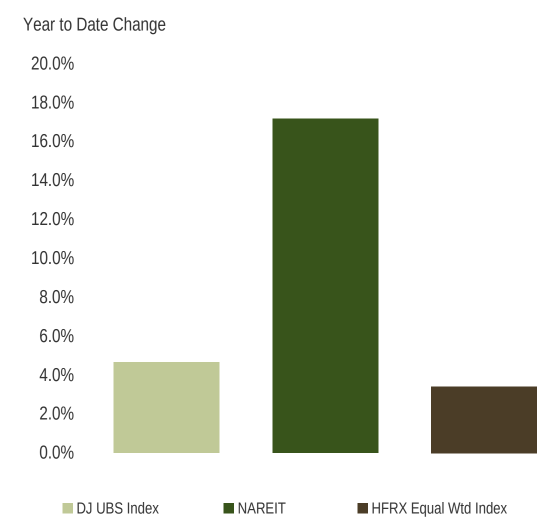
Private equity giant Blackstone Group, along with Silver Lake Partners, is exploring an opportunity to team with AOL Inc (AOL) to purchase Yahoo Inc. (YHOO). AOL has a much smaller market capitalization than does YHOO and would benefit from the assistance of private equity firms. A

| Issue | Previous Week | Current[1] | Change |
|---|---|---|---|
| Gold | 1,347.90 | 1,369.60 | 1.61% |
| Crude Oil Futures | 82.84 | 81.42 | -1.71% |
| Copper | 378.50 | 383.75 | 1.39% |
| Sugar | 26.32 | 27.06 | 2.81% |
| HFRX Equal Wtd. Strat. Index | 1,140.33 | 1,149.63 | 0.82% |
| HFRX Equity Hedge Index | 1,163.20 | 1,174.48 | 0.97% |
| HFRX Equity Market Neutral | 981.44 | 986.63 | 0.53% |
| HFRX Event Driven | 1,374.83 | 1,384.92 | 0.73% |
| HFRX Merger Arbitrage | 1,487.70 | 1,493.79 | 0.41% |
| Dow Jones UBS Commodity Index | 144.39 | 145.67 | 0.89% |
| FTSE/NAREIT All REIT | 129.37 | 131.63 | 1.75% |

1 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, The International Monetary Fund.




Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research




Source: Dow Jones, National Association of Real Estate Investment Trusts, Hedge Fund Research

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