

# MainStreet Advisors Financial Market Update

October 29, 2010  
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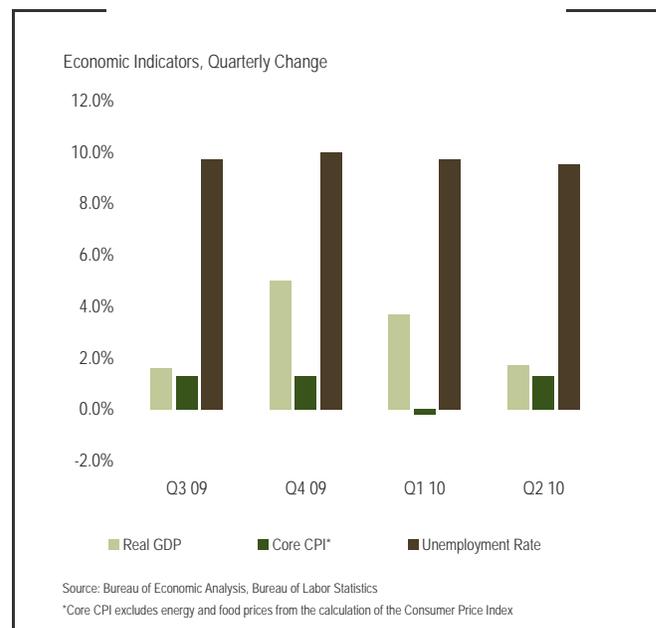
## Economic Update

The U.S. economy expanded at an annual rate of 2.0% in the third quarter, as shown by gross domestic product (GDP) data released by the Commerce Department. The pace of the recovery increased from the second quarter, led by increases in personal consumption expenditures (PCE) and private inventory investment along with a deceleration in imports. Strengthening PCE is encouraging because consumers continue to spend despite mixed confidence readings and ongoing uncertainty in labor market conditions.

The Conference Board Consumer Confidence Index improved modestly in October. The survey of 5,000 U.S. households reflected slightly better, but still weak, expectations for the economic outlook. The Director of The Conference Board Consumer Research Center, Lynn Franco attributed low levels of consumer confidence to ongoing uncertainties in the labor market. The Thomson Reuters/University of Michigan Surveys of Consumers declined in October, reflecting the weakest consumer sentiment in nearly a year amid a soft outlook for economic growth.

The National Association of Realtors (NAR) reported that sales of existing homes increased 10% to a seasonally adjusted annual rate of 4.53 million in September—a level 19.1% below September 2009. However, first time home buyers taking advantage of the tax credits supported the higher levels one year ago. NAR Chief Economist Lawrence Yun concluded that the housing market recovery should generally continue to improve. New home sales climbed 6.6% in September to a seasonally adjusted annual rate of 307,000, according to the Department of Commerce. The S&P/Case-Shiller Home Price Indices showed a decline in national home prices in August, with annual growth rates decelerating in 17 of the 20 largest U.S. metropolitan areas.

The Commerce Department reported that new orders for durable goods advanced 3.3% in September—marking an increase in two of the past three months. However, new orders increased just 0.8% when excluding transportation. Non-defense orders for capital goods climbed 8.6%.

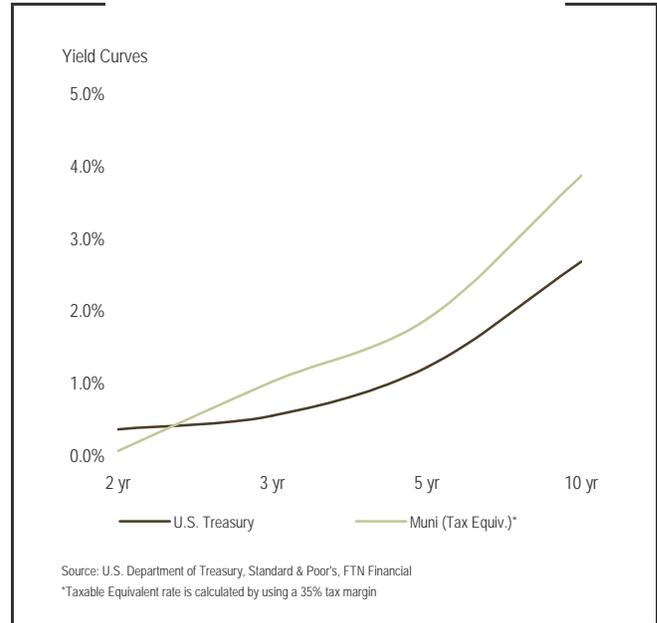


Oct. 25 <sup>th</sup>	Existing Home Sales, September SAAR*	4.53M
Oct. 26 <sup>th</sup>	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.3%
Oct. 26 <sup>th</sup>	S&P/Case-Shiller Composite 20 Index, August	148.59
Oct. 26 <sup>th</sup>	Consumer Confidence Index, October	50.2
Oct. 26 <sup>th</sup>	State Street Investor Confidence Index, October	86.2
Oct. 27 <sup>th</sup>	MBA Purchase Applications Index, Wkly. Chg.	3.9%
Oct. 27 <sup>th</sup>	Durable Goods New Orders, Sept. Monthly Chg.	3.3%
Oct. 27 <sup>th</sup>	New Home Sales, September	307,000
Oct. 27 <sup>th</sup>	EIA Petroleum Status Report, Wkly. Chg.	5.0M Barrels
Oct. 27 <sup>th</sup>	Initial Jobless Claims ( Week ending 10/23)	434,000
Oct. 28 <sup>th</sup>	EIA Natural Gas Report, Wkly. Chg.	-71 bcf

Bond Market Update

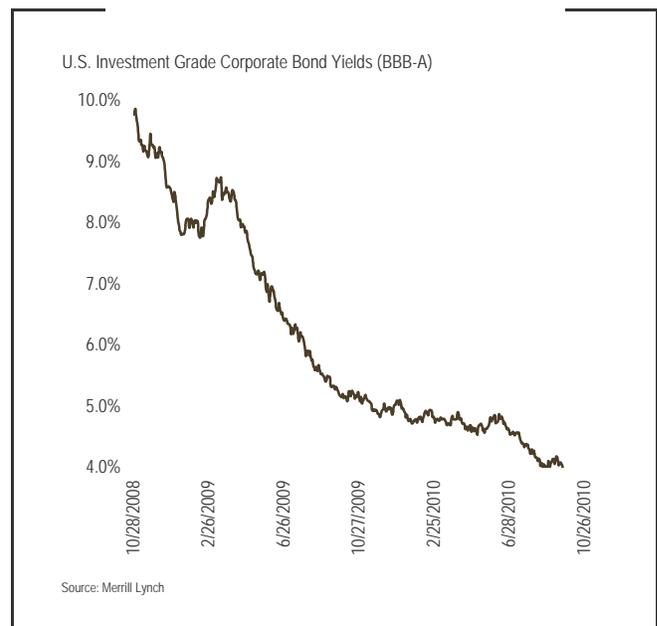
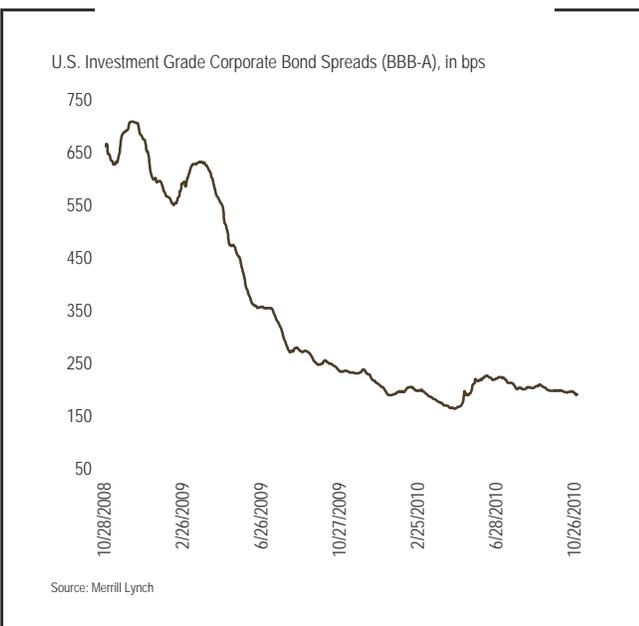
Largely attributable to a flight-from-safety trade, the riskier sectors in the broad fixed income markets posted sharply higher returns in September. Noteworthy gainers included global treasury ex U.S. (1.67%), U.S. corporate high yield (2.51%) and emerging markets (1.46%). TIPS also performed well gaining 2.36% for the month as market participants bet that quantitative easing will lead to increased inflation exceptions. Sectors considered the safest fell for the month, with long Treasuries dropping 5.58% and municipal bonds losing 0.32%.

In a sign that higher inflation expectations are gathering speed, the spread, or difference in yields, between 10-year TIPS and similar maturity Treasuries widened by 0.34%, a considerable move in this measure. Investors use this measure as a gauge of trader expectations for annualized CPI inflation over the life of the securities. Adding to inflation pressures, a recent \$10 billion sale of five-year TIPS drew a yield of -0.55%, the first ever negative yield at a Treasury auction, as investors bet that the securities will have an overall positive total return as inflation increases.



Issue	10.22.10	10.29.10	Change
3 month T-Bill	0.13%	0.13%	0.00%
2-Year Treasury	0.37%	0.37%	0.00%
5-Year Treasury	1.15%	1.23%	0.08%
10-Year Treasury	2.57%	2.69%	0.12%
30-Year Treasury	3.95%	4.05%	0.10%

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



Stock Market Update

October was a strong month for domestic equities, with the S&P 500 and the Dow Jones Industrial Average indices finishing up 3.69% and 3.06%, respectively. The NASDAQ Composite Index posted an impressive 5.86% increase for the month as technology stocks surged. It was the best October for the S&P 500 since 2003, and the Dow's best October since 2006. The monthly climb can be partially attributed to investors' heightened expectations that the Federal Reserve will announce further measures of stimulus during their meeting in early November. Despite solid performance for the month, markets experienced mixed results in the final week amid lower-than-expected third quarter economic growth and cautious anticipation for the forthcoming midterm elections and Federal Reserve meeting. The S&P 500 and NASDAQ Composite indices ended the week up 0.02% and 1.13%, respectively, while the Dow Jones Industrial Average Index fell 0.13%.

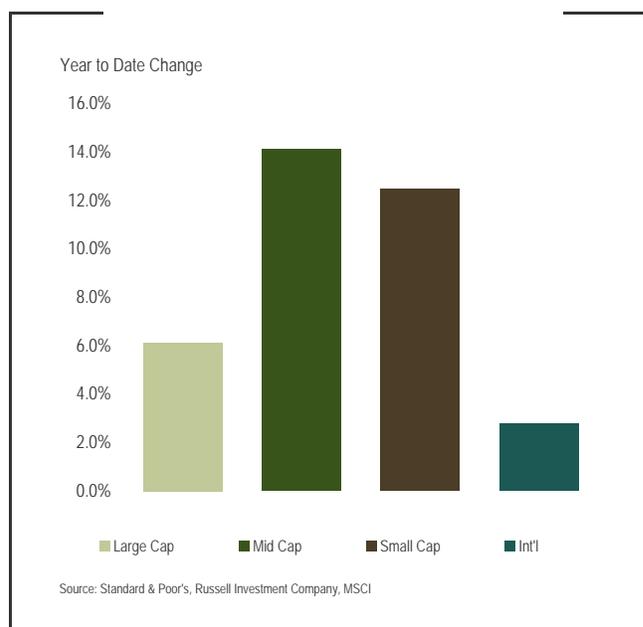
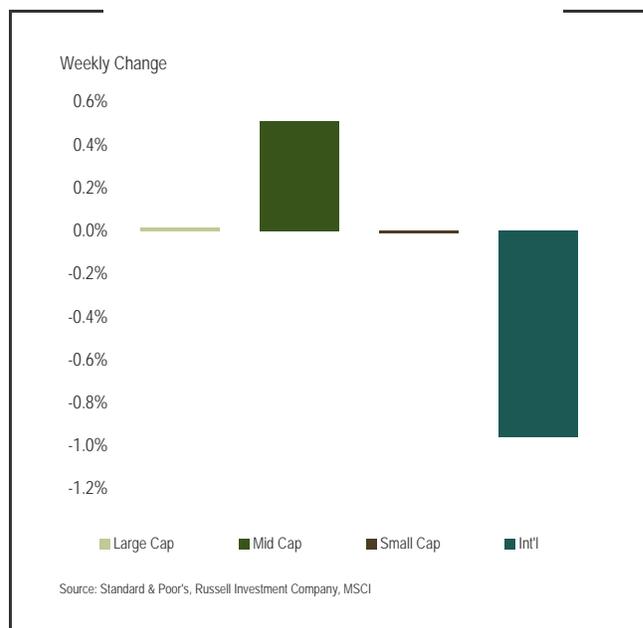
Berkshire Hathaway (BRK.B) announced on Monday that Todd Combs, a little-known hedge fund manager at Castle Point Capital, would join the firm as a potential successor to Warren Buffet. Though Buffett claims he has no intention of stepping down in the near future, he has laid out a plan that upon his departure would split his position into a CEO role and approximately three investment chiefs. Shares of Berkshire dropped 4.54% on the week.

3M Company (MMM) fell 6.88% this week after dilution from three recent acquisitions led the company to narrow its 2010 profit target. Chevron Corp (CVX) ended the week down 2.31% after releasing disappointing profits resulting from increasing expenses and decreasing production in the United States. Microsoft Corp (MSFT) posted profit that climbed 51% on the success of its Windows 7 operating system and Office 2010 software suite, pushing the stock up 5.09% on the week. Microsoft was the best performing stock in the Dow this month, rising 8.86% in October.

Issue	10.22.10	10.29.10	Change
Dow Jones	11,132.56	11,118.49	-0.13%
S&P 500	1,183.08	1,183.26	0.02%
NASDAQ	2,479.39	2,507.41	1.13%
Russell 1000 Growth	538.27	540.07	0.33%
S&P MidCap 400	824.91	829.13	0.51%
Russell 2000	703.43	703.35	-0.01%
MSCI EAFE	1,632.23	1,616.59	-0.96%
MSCI EM	1,106.23	1,102.82	-0.31%
MSCI Small Cap	158.85	157.89	-0.60%

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

In recent months, commodities have been sent higher, largely due to a historically weak dollar. While the descent of the dollar has slowed in recent days, a report on CNBC.com suggests Japan may continue to fuel the rise. Japan's ruling Democratic Party proposed using excess currency reserves to buy scarce global commodities and invest in domestic resource development. The report mentions that "governments are becoming more alert and innovative about what resources they have to pursue national interests." Broad commodity demand is likely to remain elevated in the near- and intermediate-term.

To conclude the month of October, gold advanced higher in the final week of the month on renewed currency risk and inflation concerns. Worries of a potential currency war dominated headlines as countries attempted to artificially deflate their currency to maintain an exporting advantage. This caused investors to flee currencies, instead directing assets toward "hard assets" to maintain a store of value. Talk of additional bond purchases by the Federal Reserve spooked inflation fears, sending investors to precious metals. Crude oil traded up and down throughout the entire month but was finally able to weaken the recently strong correlation to equities. While the U.S. is still in a supply glut, inventories have been improving in recent weeks confirmed by an unexpected decline in gasoline inventories in the final week of the month.

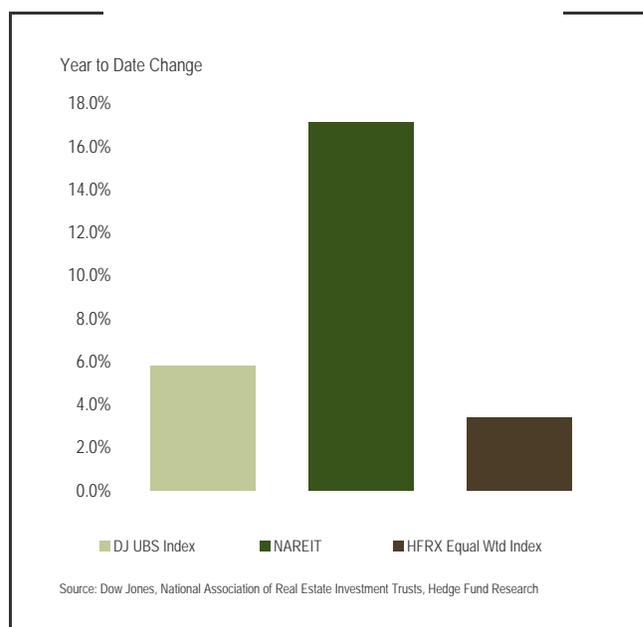
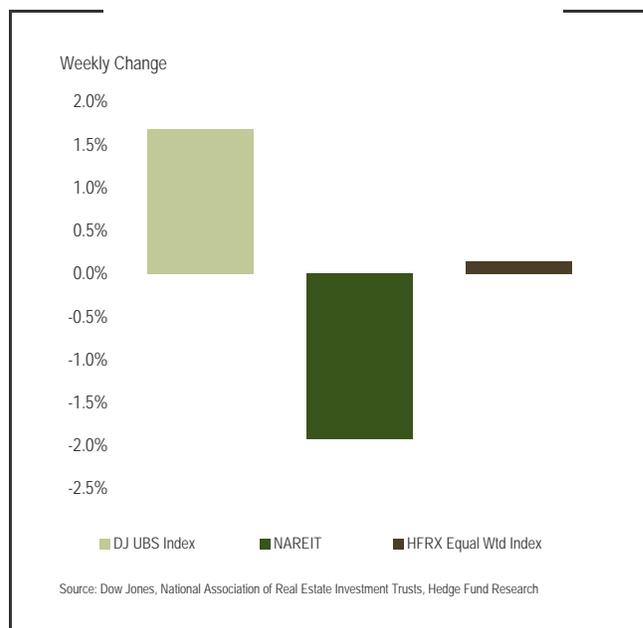
While it was recently reported by BarclayHedge that the hedge fund industry finally recouped losses from the financial crisis, a separate report from FinAlternatives shows 45% of hedge fund firms have at least one fund below its high water mark. The significance of the high water mark is that hedge funds typically cannot charge performance fees until all losses are recouped.

Data furnished by Ernst & Young indicates that the surge in private equity backed IPOs declined in Q3. The market value of trade-exits by private equity firms decreased 34% when compared to Q2. Most industry experts expected a continued increase in deals as firms try to trim portfolios, raise new cash, and return to profitability.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,328.30	1,358.80	2.30%
Crude Oil Futures	82.00	81.40	-0.73%
Copper	380.90	374.55	-1.67%
Sugar	28.22	29.12	3.19%
HFRX Equal Wtd. Strat. Index	1,147.77	1,149.37	0.14%
HFRX Equity Hedge Index	1,172.12	1,164.21	-0.67%
HFRX Equity Market Neutral	985.42	994.65	0.94%
HFRX Event Driven	1,373.62	1,365.30	-0.61%
HFRX Merger Arbitrage	1,493.03	1,499.06	0.40%
Dow Jones UBS Commodity Index	144.84	147.27	1.68%
FTSE/NAREIT All REIT	134.14	131.56	-1.92%

<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, The International Monetary Fund.



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