

# MainStreet Advisors Financial Market Update

September 24, 2010  
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## Economic Update

The National Bureau of Economic Research (NBER) announced the recession beginning in December 2007 ended in June 2009. The 18-month recession marks the longest in the post-World War II era. The NBER noted that economic activity has not returned to normal capacity. In addition, it confirmed any future downturn will be considered a separate recession and not a continuation.

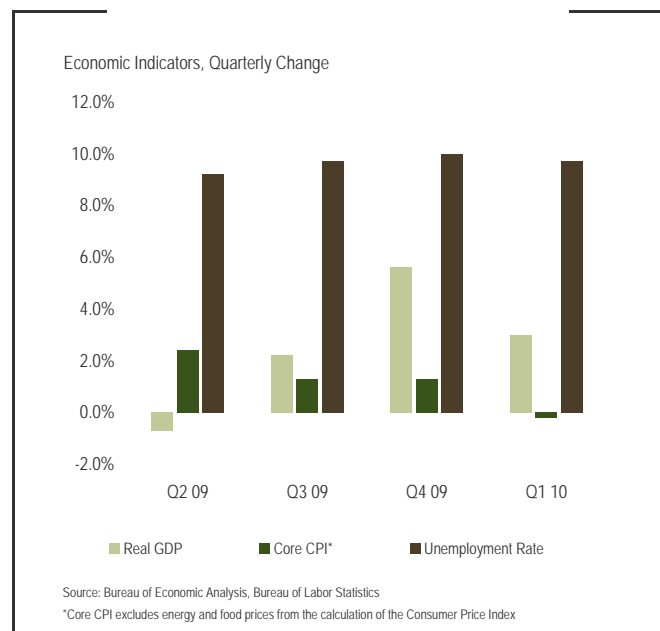
The Federal Open Market Committee (FOMC) announced Tuesday that it will maintain the target federal funds rate of 0-0.25%, given the outlook for the economy and inflation expectations. The Committee acknowledged the pace of economic recovery has decelerated and that consumer spending remains muted due to ongoing challenges in the labor market, income prospects, reduced housing wealth, and tight credit conditions. In addition, the FOMC noted that gauges of inflation indicate that underlying inflation is lower than levels which promote economic growth over the long-term.

The National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index reflected that builder confidence has remained unchanged since August. NAHB Chief Economist David Crowe noted that builders consider the two greatest challenges to be consumer hesitation in the current labor market and the availability of foreclosed property. In August, the Department of Commerce reported that new home sales remained unchanged while housing starts climbed 10.5% to a seasonally adjusted rate of 598,000. According to the National Association of Realtors (NAR), existing home sales increased 7.6%.

The U.S. Census Bureau announced Friday that new orders for durable goods dropped \$2.5 billion or 1.3% in August. This greater-than-expected loss follows a 0.7% gain in July. When excluding transportation, new orders climbed 2.0% in August.

In August, the Conference Board reported that its Leading Economic Index increased 0.3%. Ataman Ozyildirim of The Conference Board noted that the index remains on an upward trend but at a decelerating pace.

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 Conference Board, the National Association of Realtors.



Sep. 20 <sup>th</sup>	Housing Market Index, September	13.0
Sep. 21 <sup>st</sup>	Housing Starts, August	598,000
Sep. 22 <sup>nd</sup>	MBA Purchase Applications Index, Wkly. Chg.	-3.3%
Sep. 22 <sup>nd</sup>	FHFA House Price Index, July Monthly Chg.	-0.5%
Sep. 22 <sup>nd</sup>	EIA Petroleum Status Report, Wkly. Chg.	1.0M Barrels
Sep. 23 <sup>rd</sup>	Initial Jobless Claims ( Week ending 9/18)	465,000
Sep. 23 <sup>rd</sup>	Existing Home Sales, August SAAR*	4.13M
Sep. 23 <sup>rd</sup>	Leading Indicators, Aug. Monthly Chg.	0.3%
Sep. 24 <sup>th</sup>	Durable Goods New Orders, Aug. Monthly Chg.	-1.3%
Sep. 24 <sup>th</sup>	New Home Sales, August	288,000

Bond Market Update

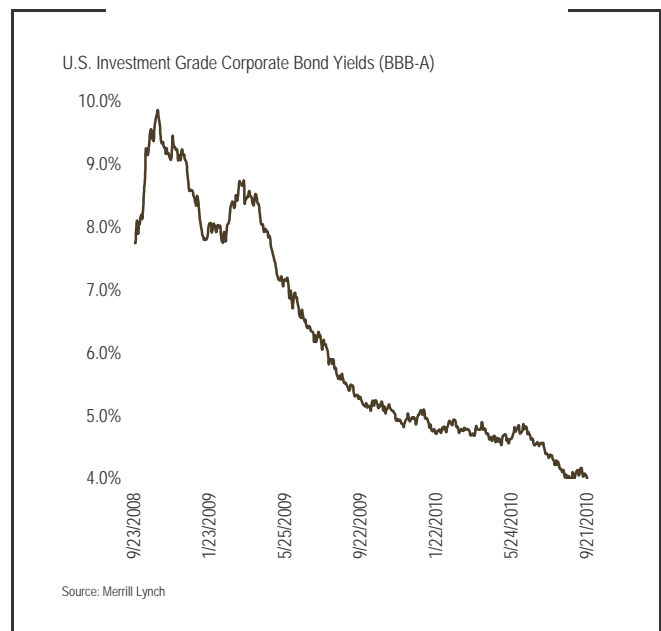
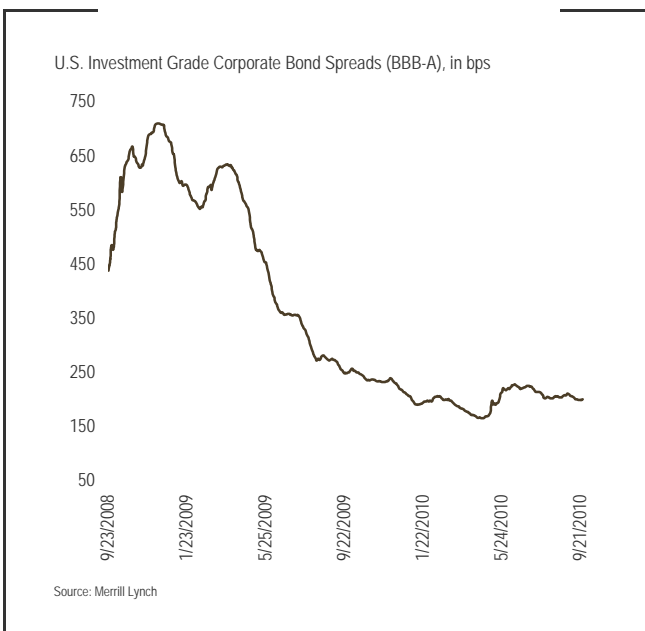
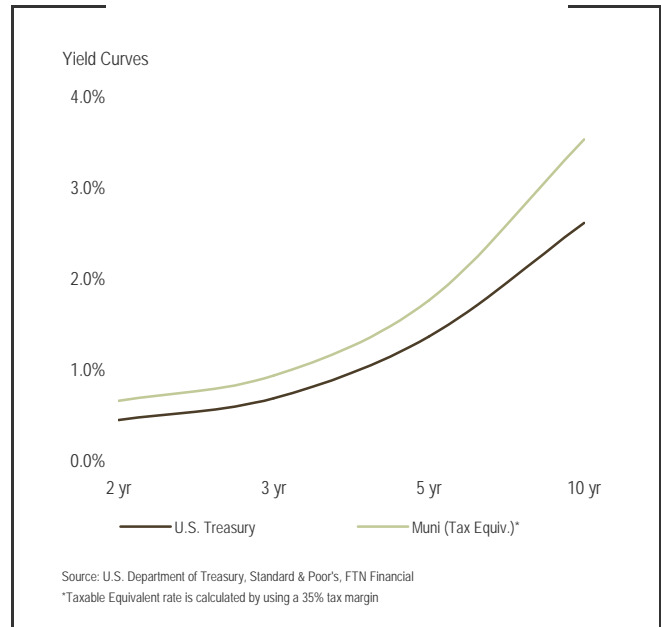
U.S. Treasuries finished the week higher, despite a sharp decline on Friday amid a stronger-than-expected durable goods report. Traders said that market participants were also getting ready for new supply next week, as the Treasury plans to sell \$100 billion in two-, five- and seven-year notes. Market makers tend to push up long-term bond yields as a way to underwrite bond auctions at more attractive levels.

Demand for government debt jumped earlier in the week after the Federal Reserve said in its statement that they are prepared "to provide additional accommodation if needed to support economic recovery and to return inflation, over time, to levels consistent with its mandate." Strategists interpreted this as an indication of the central bank's desire to push long-term interest rates lower, using quantitative easing, in an effort to stimulate the economy and fend off deflation. CPI excluding food and energy recently increased at an annual rate of 0.9%, the lowest level since 1966.

Many strategists posit that in the short-term, the bond market may face additional selling pressures given the sharp rally over the last two weeks. At the same time, yields are expected to decline over the intermediate-term spurred by expectations for additional large-scale Treasury bond purchases from the Federal Reserve in an effort to stimulate growth.

Issue	9.17.10	9.24.10	Change
3 month T-Bill	0.16%	0.15%	-0.01%
2-Year Treasury	0.48%	0.45%	-0.03%
5-Year Treasury	1.46%	1.37%	-0.09%
10-Year Treasury	2.75%	2.62%	-0.13%
30-Year Treasury	3.90%	3.79%	-0.11%

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



Stock Market Update

Domestic stocks had a strong start and end to the week, pushing major indices into positive territory despite a rocky stretch from Tuesday through Thursday. Markets closed at their highest levels in over four months on Monday, bolstered by optimistic financial and home builder earnings reports along with the National Bureau of Economic Research declaring that the U.S. recession ended last summer. Stocks slipped midweek amid a lukewarm Federal Reserve announcement, thin trading volumes, and rising U.S. jobless claims. Friday saw the largest gains of the week after positive economic data, specifically on U.S. durable goods orders and new home sales, injected more risk appetite into investors. This sent stocks into their fourth positive week in a row, with the S&P 500, Dow Jones Industrial Average, and NASDAQ Composite indices finishing the week up 2.05%, 2.38%, and 2.83%, respectively.

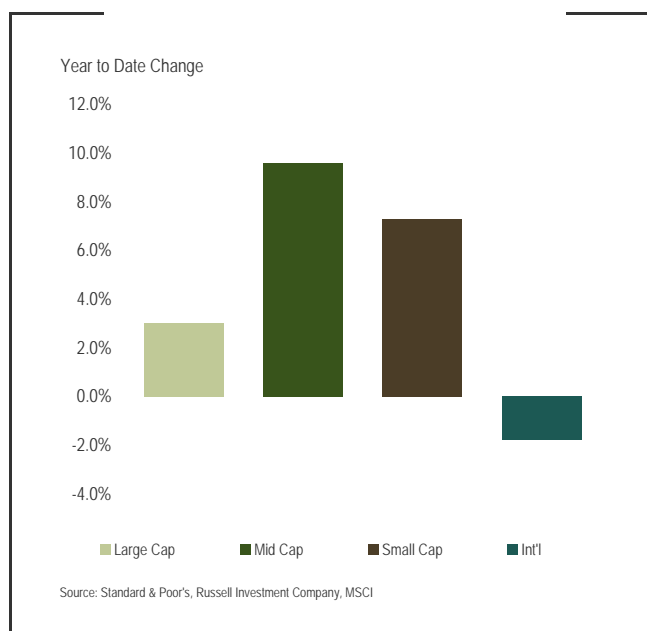
Adobe Systems Inc. (ADBE) dropped sharply on Wednesday after releasing a disappointing fourth quarter earnings and revenue forecast. The stock fell 19.03% and failed to gain back much ground as the week continued. The company attributes its downtrodden outlook on slowed demand from schools and Japanese consumers.

Nike Inc. (NKE), the world's largest athletic shoe producer, gained 2.45% on Friday after reporting a 10% year-over-year jump in future orders scheduled for delivery between September 2010 and January 2011. China was the region with the largest increase in demand, with orders rising 25%. The company hit a record intra-day high of \$81.70 per share during trading.

CarMax Inc. (KMX) jumped 1.33% in trading Friday after posting results for the second quarter that beat analyst forecasts. The largest used-car retailer in the U.S. announced that same-store sales were up 4% and revenue rose 13% to \$2.34 billion. CarMax, which benefited greatly from the government's "cash for clunkers" program in 2009, is up 12.78% year-to-date.

Issue	9.17.10	9.24.10	Change
Dow Jones	10,607.85	10,860.26	2.38%
S&P 500	1,125.59	1,148.67	2.05%
NASDAQ	2,315.61	2,381.22	2.83%
Russell 1000 Growth	504.53	517.62	2.59%
S&P MidCap 400	780.82	796.29	1.98%
Russell 2000	651.44	671.01	3.00%
MSCI EAFE	1,525.81	1,545.07	1.26%
MSCI EM	1,031.06	1,047.16	1.56%
MSCI Small Cap	146.90	149.72	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.



Alternative Investments Market Update

Gold futures continued to rise this week, breaking records several days in a row to end the week up 1.77%. The Federal Reserve opened the door for continued quantitative easing should the economy require additional support, which would likely have an adverse effect on the dollar and spur inflationary pressure, enhancing the appeal of gold. For a brief period in afternoon trade on Friday, the precious metal surpassed \$1,300 per ounce before settling at a record \$1,298.10. Crude oil futures rallied 4.26% this week despite an inventory report showing a slight build-up in stockpiles. The Energy Information Administration (EIA) reported a one million increase in inventory, despite a loss of 670,000 barrels per day related to the Chicago suburb pipeline leak. Energy prices rose late in the week after a ConocoPhillips oil refinery temporarily shutdown to install new equipment. On Friday, the euro rose to its highest point relative the dollar since April following an increase in German business sentiment—the dollar's decline pushed crude futures higher.

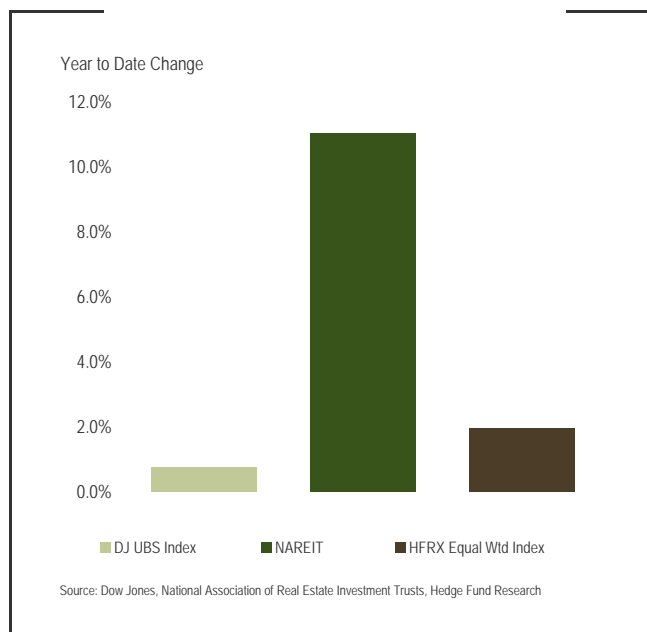
A recent Merrill Lynch study found nearly 20% of hedge funds may be liquidated by next year. Funds with less than \$100 million in assets are the most vulnerable. The report attributes the pessimism to a brutal fundraising environment and movement of assets to larger funds, echoing a report released last week from Hedge Fund Research.

According to Private Equity News, research conducted by over 100 law firms found the United Kingdom to be the most legal-friendly country in which to conduct leveraged private-equity buyouts. The findings boosted hopes for a private sector-led recovery.

Issue	Previous Week	Current <sup>1</sup>	Change
Gold	1,275.50	1,298.10	1.77%
Crude Oil Futures	73.46	76.59	4.26%
Copper	351.60	362.75	3.17%
Sugar	23.25	24.40	4.95%
HFRX Equal Wtd. Strat. Index	1,129.53	1,133.48	0.35%
HFRX Equity Hedge Index	1,138.06	1,145.60	0.66%
HFRX Equity Market Neutral	973.17	978.35	0.53%
HFRX Event Driven	1,360.06	1,367.83	0.57%
HFRX Merger Arbitrage	1,481.44	1,477.73	-0.25%
Dow Jones UBS Commodity Index	138.42	140.23	1.31%
FTSE/NAREIT All REIT	127.82	124.74	-2.41%

<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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