

MainStreet Advisors Financial Market Update

August 26, 2011
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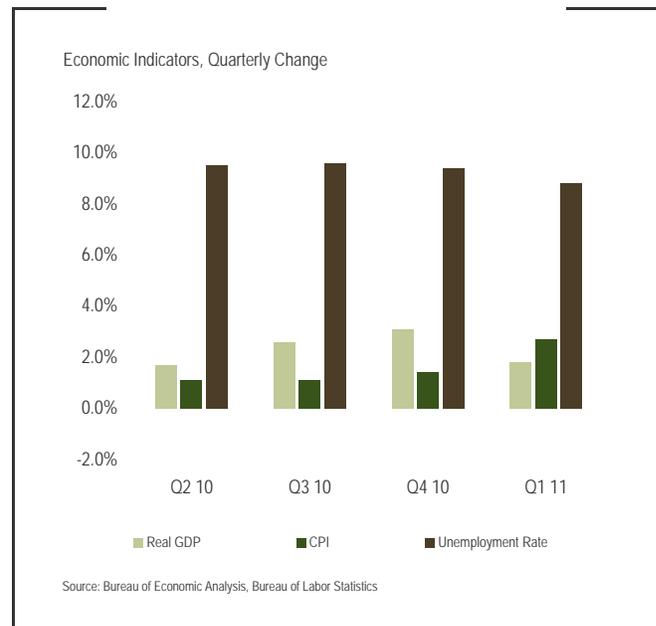
Economic Update

Second quarter GDP was revised down slightly from 1.3% to 1.0% in the Commerce Department's second estimate released Friday, mostly in line with expectations. The market's focus this week, however, was on Ben Bernanke's speech from Jackson Hole. The Fed Chairman acknowledged that recent economic growth has been weaker than anticipated, but expects growth to improve in the second half of the year and was much more optimistic about the country's long-term growth potential. He showed tact by pledging that the "Federal Reserve will certainly do all that it can to help restore high rates of growth and employment in a context of price stability" without giving specific details, but that it was changes in fiscal policy that needed to be made to "achieve economic and financial stability."

Durable goods orders jumped 4.0% in July, according to a report from the U.S. Census Bureau. The gauge was driven higher thanks to an 11.5% increase in motor vehicles and parts orders and an eye-popping 43.4% surge in orders for non-defense aircraft. While these are welcome numbers for July, so far preliminary reads on manufacturing in August are indicating contraction.

There was more bad news out of the beleaguered housing market as new home sales contracted in July. Sales fell 0.7% to an annual rate of just 298,000 units, according to the Census Bureau. The report also included significant downward revisions to previously reported numbers for May (down 6,000) and June (down 12,000). Ben Bernanke noted in his speech that "the rate of new home construction has remained at less than one-third of its pre-crisis level."

The number of Americans filing for initial unemployment benefits rose for the second time in a row to 417,000 for the week ended August 20, according to the Labor Department. The report noted the labor dispute between Verizon and its union employees as a special factor that resulted in at least 8,500 claims for the week and at least 12,500 the previous week. Excluding the claims tied to the strike, which has since ended, the numbers show modest improvement compared to recent months.



Aug. 23 rd	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.0%
Aug. 23 rd	New Home Sales, July	298,000
Aug. 24 th	MBA Purchase Applications Index, Wkly. Chg.	-5.7%
Aug. 24 th	Durable Goods New Orders, July Monthly Chg.	4.0%
Aug. 24 th	EIA Petroleum Status Report, Wkly. Chg.	-2.2M Barrels
Aug. 25 th	Initial Jobless Claims (week ending 8/20)	417,000
Aug. 25 th	EIA Natural Gas Report, Wkly. Chg.	73 bcf
Aug. 26 th	GDP Price Index, Q2 Quarterly Change SAAR*	2.4%
Aug. 26 th	Consumer Sentiment Index, August	55.7

Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

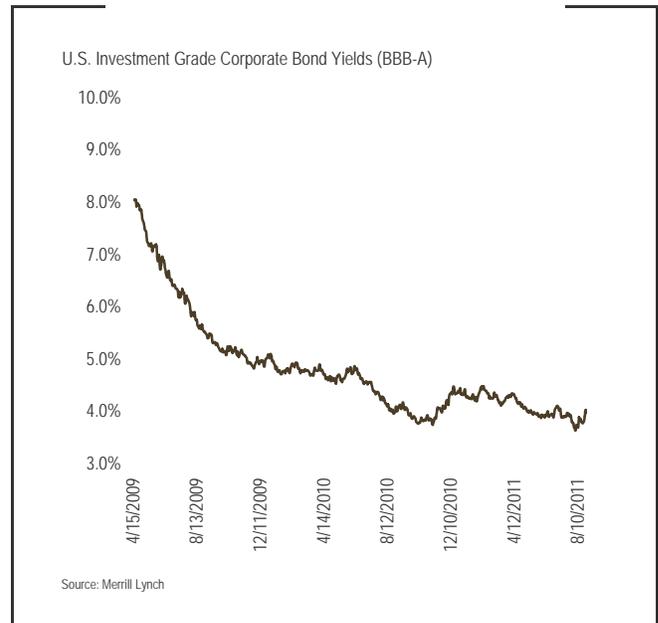
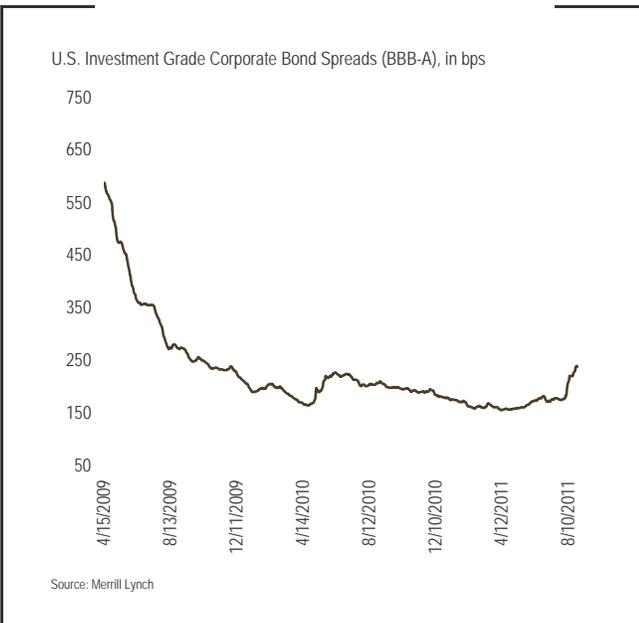
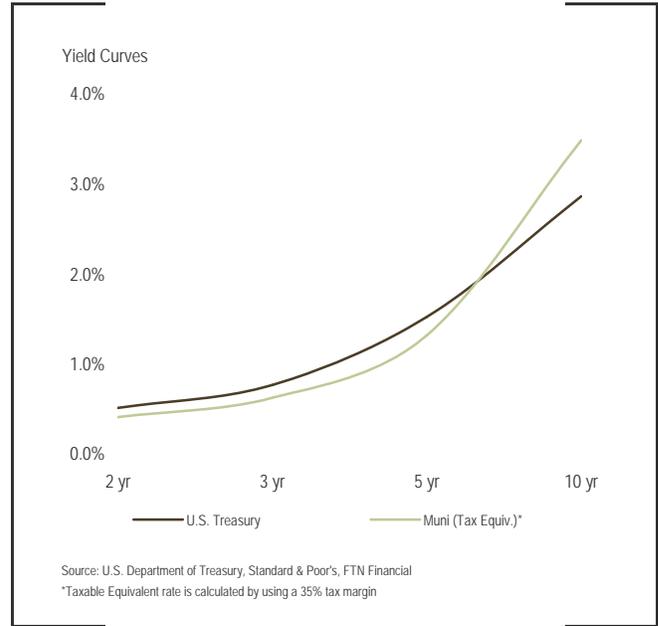
Bond Market Update

Treasuries posted their steepest weekly loss in over two months, despite a modest rally on Friday after Fed Chairman Bernanke announced that the central bank still has tools to stimulate the economy, but refrained from endorsing the use of additional stimulus measures. Still, Treasuries have returned 2.72% month-to-date, their best monthly performance since December 2008, according to data from Merrill Lynch. Bernanke also said a second day would be added to the next Fed policy meeting in September to allow a further discussion of the economy. After the announcement, economists at Goldman Sachs noted in a report the extension of the FOMC meeting makes the decision to embark on another round of quantitative easing a bit more likely than before. "Past experience suggests that the probability of easing is higher at two-day FOMC meetings, all else equal," they said. "We continue to think that further easing via manipulation of the Fed's balance sheet — either through expansion or restructuring of the average duration of holdings — is likely by early 2012," they added.

Meanwhile, Moody's downgraded Japan's credit rating from Aa2 to Aa3, warning that frequent changes in administration, weak prospects for economic growth and recent natural disasters have made it difficult for the government to reduce its huge budget deficit. Hours after the downgrade, Japan's central bank announced a \$100 billion credit facility to help the country weather a recent strengthening in the yen.

Issue	8.19.11	8.26.11	Change
3 month T-Bill	0.02%	0.01%	-0.01%
2-Year Treasury	0.20%	0.20%	0.00%
5-Year Treasury	0.90%	0.94%	0.04%
10-Year Treasury	2.07%	2.19%	0.12%
30-Year Treasury	3.39%	3.54%	0.15%

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



Stock Market Update

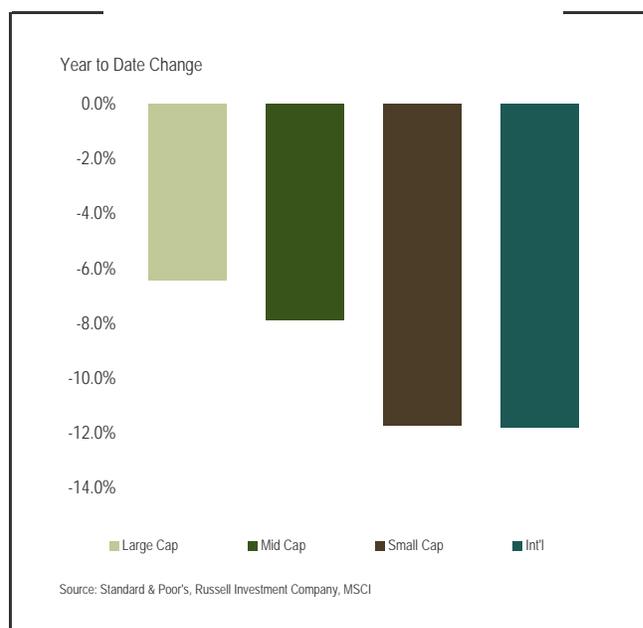
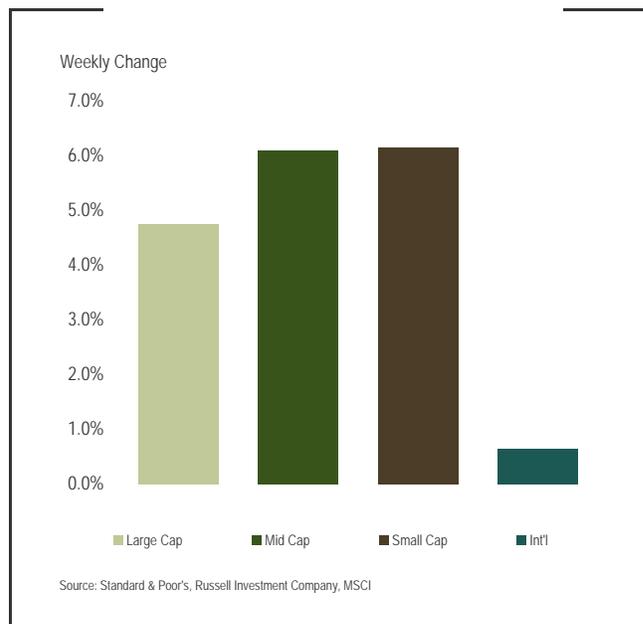
The stock market had a significant amount of anxiety during the week as investors awaited the comments from Ben Bernanke Friday morning from Jackson Hole, WY. At last year's meeting, Bernanke announced the QE2 program which generated much anticipation of what would be announced at this year's meeting. The premise of the speech Friday morning left the door open to an additional quantitative easing program. However, the Fed said they would meet an additional day in September and gather more information prior to making any decision. The equity market finished the week strong as every sector in the S&P 500 was positive for the week. The Dow Jones Industrial Average closed at 11,284.54, up 467 points for the week, or up 4.32%. The broader S&P 500 Index ended the week by 4.74% to close at 1,176.80, while the NASDAQ Composite finished higher by 138 points, or up 5.89% to close the week out at 2,479.85.

After writing about Bank of America earlier this month and the concerns regarding additional lawsuits over the bad mortgages and the need to raise additional capital, Warren Buffet offered a boost to the stock by injecting \$5 billion into the troubled bank. Buffett received the right to purchase 700 million shares of the company at any time over the next 10 years for a price of \$7.14 a share. He made a similar investment in the financial crisis when he purchased shares of Goldman Sachs that eventually net Berkshire Hathaway a profit of \$3.7 billion.

Apple co-founder and CEO, Steve Jobs, stepped down this week. Jobs returned to the company he co-founded in 1997 to bring the company out of near bankruptcy. Over the past 15 years, the stock price of Apple was at a low of \$10 a share when he came back and has since traded for over \$400 a share. Tim Cook will become the new face of the company, and in an email to the company he reiterated that "Apple is going to continue making the best products in the world that delight are customers and make our employees incredibly proud of what they do."

Issue	8.19.11	8.26.11	Change
Dow Jones	10,817.65	11,284.54	4.32%
S&P 500	1,123.53	1,176.80	4.74%
NASDAQ	2,341.84	2,479.85	5.89%
Russell 1000 Growth	520.79	550.07	5.62%
S&P MidCap 400	787.86	835.92	6.10%
Russell 2000	651.7	691.79	6.15%
MSCI EAFE	1,446.14	1,455.41	0.64%
MSCI Small Cap	995.44	973.05	0.73%

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

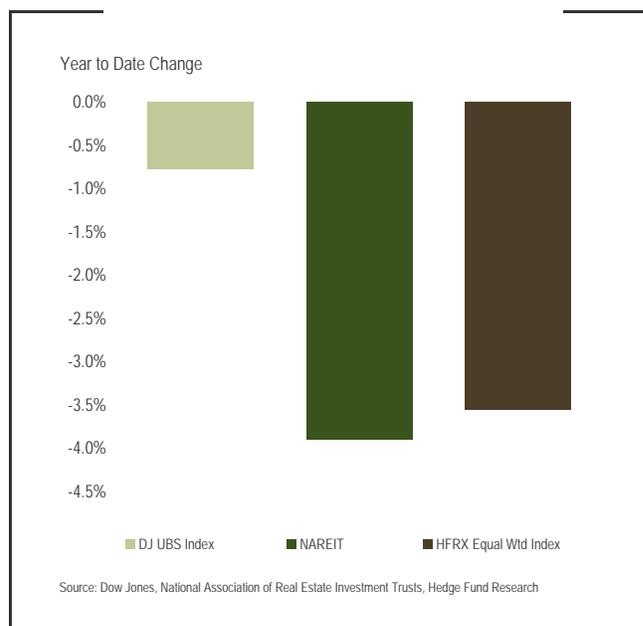
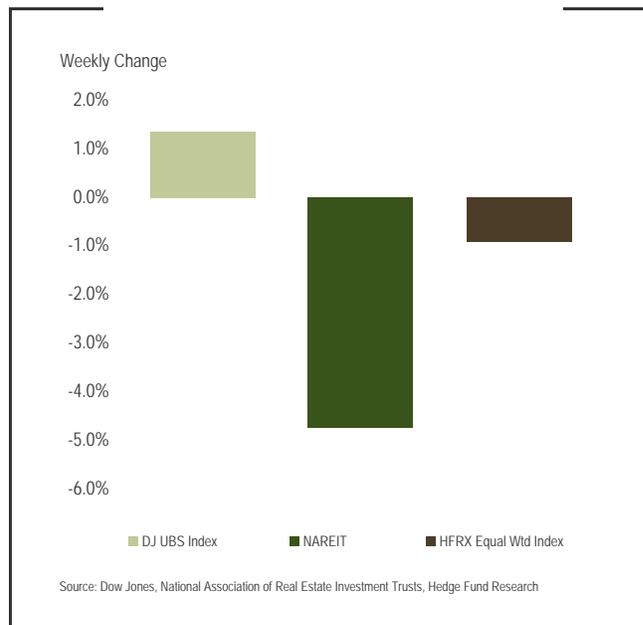
Gold ended the week slightly down, settling at \$1,830.30 an ounce. However, after Federal Reserve Chairman Ben Bernanke gave zero hints of another liquidity injection in the near future, the demand for the precious metal as a store of value increased almost 2% on Friday. Bernanke stated that the central bank has the necessary tools to stimulate growth, but refrained from outlining any plan for a third round of quantitative easing. The gold market was extremely volatile this week, with the metal scaling a \$200 trading range as initial concerns gold prices climbed too far too quickly were eclipsed by demand for gold as a haven from economic uncertainty.

Crude oil also rose after Bernanke's speech on Friday, settling at \$85.51 a barrel, due to concerns Hurricane Irene may disrupt gasoline and diesel supplies. Gasoline gained 3.41% this week on concerns the hurricane will hit refineries along the U.S. East coast. According to the Energy Department, the region has 10 operating oil refineries with a capacity of 1.21 million barrels a day. The area accounts for 7.1% of total U.S. operating capacity. In the upcoming weeks, many experts forecast crude dipping based on Libyan rebels consolidating their holdings and beginning to take steps to restore their exports.

In hedge fund news, emerging market hedge funds saw assets under management grow \$1.4 billion in Q2 to reach a record high \$123 billion. According to Hedge Fund Research, new capital inflows accounted for \$300 million of this increase, while performance-based returns added another \$1.1 billion. This growth marks four straight quarters of growth for EM hedge funds, which many analysts attribute to factors such as the European sovereign debt crisis, the U.S. debt ceiling debate and the weak U.S. economic recovery. Emerging market economies have proved more resilient, with strong currencies and sovereign debt positions, despite increasing inflationary pressures. Macro hedge funds focused on emerging markets posted performance gains of about 9% in Q2.

Issue	Previous Week	Current ¹	Change
Gold	1,854.50	1,830.30	-1.30%
Crude Oil Futures	82.69	85.51	3.41%
Copper	399.25	412.00	3.19%
Sugar	30.96	30.22	-2.39%
HFRX Equal Wtd. Strat. Index	1,136.07	1,125.80	-0.90%
HFRX Equity Hedge Index	1,067.07	1,048.61	-1.73%
HFRX Equity Market Neutral	1,012.83	1,001.45	-1.12%
HFRX Event Driven	1,336.91	1,319.34	-1.31%
HFRX Merger Arbitrage	1,509.89	1,502.79	-0.47%
Dow Jones UBS Commodity Index	159.00	161.14	1.34%
FTSE/NAREIT All REIT	135.57	129.16	-4.73%

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.



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