# MainStreet Advisors
# Financial Market Update

September 16, 2011


## Economic Update

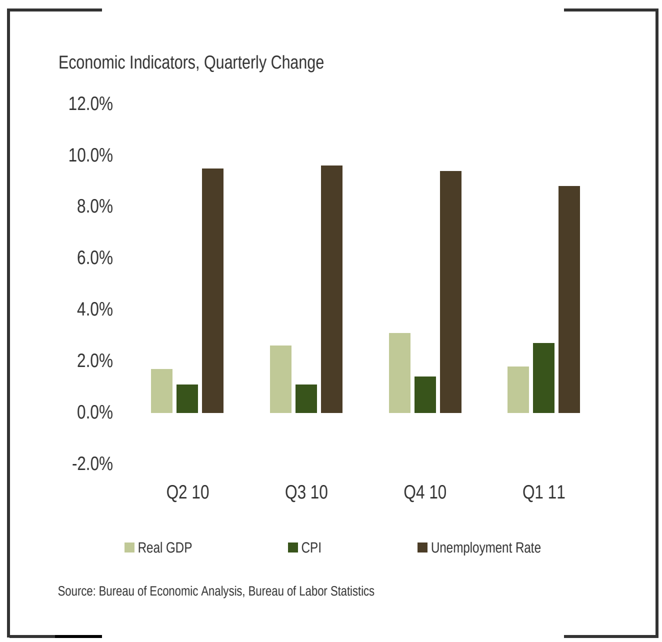
Worries about the sovereign debt crisis in Europe eased a little this week as China signaled its willingness to help and German Chancellor Angela Merkel and French President Nicolas Sarkozy issued a joint statement saying they “are convinced that the future of Greece is in the euro zone.” The Chinese financial magazine Caijing reported China is willing to buy bonds of debt-burdened European nations, citing Zhang Xiaoqiang, a vice chairman of the National Development and Reform Commission. China’s premier Wen Jiabao lent his support for Europe as well, but said “Countries must first put their own houses in order.”

Inflation at the consumer level remained elevated in August, according to the Labor Department. The CPI slowed from the previous month’s jump of 0.5%, but still registered at 0.4% exceeding expectations for 0.2% increase. Energy prices continued to rise up 1.2%, and food price inflation accelerated to 0.5%. Year-over-year CPI inflation continued to worsen climbing to 3.8% from 3.6% in July, and the core rate accelerated to 2.0% reaching the upper end of the Fed’s implied inflation target range. Ben Bernanke has repeatedly stated anything the Fed does to promote economic growth will be “in a context of price stability”, so it will be interesting to see the impact this has on the outcome of the FOMC meeting next week. Meanwhile, inflation at the producer level eased despite a surge in food prices. PPI was flat in August, following a 0.2% increase the previous month. Import prices fell 0.4% with the help of a 2.1% drop in prices for petroleum products, while on the export side higher agricultural prices pushed prices up 0.5%.

Retail sales were flat in August after rising 0.3% in July, according to the Commerce Department. It appears consumers are being a bit more cautious with spending, although Hurricane Irene likely had a negative impact on sales. Retail sales are up 7.2% on a year-over-year basis.

Initial jobless claims for the week ended September 10 were worse than expected, climbing 11,000 to 428,000, a discouraging trend as the Labor Department report also showed the four-week average moved up for the fourth straight week and is now 15,000 higher than a month ago.

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.




| | | |
|---|---|---|
| Sept. 13th | ICSC-Goldman Same Store Sales, Wkly. Chg. | 1.3% |
| Sept. 13th | Import Prices, Aug. Monthly Chg. | -0.4% |
| Sept. 13th | Export Prices, Aug. Monthly Chg. | 0.5% |
| Sept. 14th | MBA Purchase Applications Index, Wkly. Chg. | 7.0% |
| Sept. 14th | Producer Price Index, Aug. Monthly Chg. | 0.0% |
| Sept. 14th | Retail Sales, Aug. Monthly Chg. | 0.0% |
| Sept. 14th | Business Inventories, July Monthly Chg. | 0.4% |
| Sept. 14th | EIA Petroleum Status Report, Wkly. Chg. | -6.7M Barrels |
| Sept. 15th | Consumer Price Index, Aug. Monthly Chg. | 0.4% |
| Sept. 15th | Empire State Mfg Survey, September | -8.82 |
| Sept. 15th | Initial Jobless Claims (week ending 9/10) | 428,000 |
| Sept. 15th | Industrial Production, Aug. Monthly Chg. | 0.2% |
| Sept. 15th | Philidelphia Fed Survey, September | -17.5 |
| Sept. 15th | EIA Natural Gas Report, Wkly. Chg. | 87 bcf |
| Sept. 16th | Consumer Sentiment Index, September | 57.8 |

## Bond Market Update

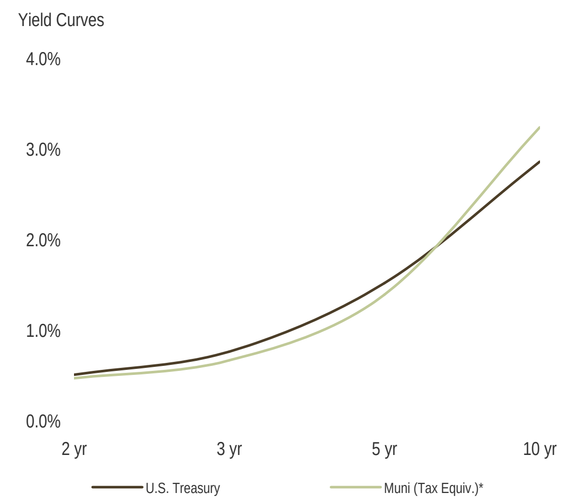
U.S. Treasuries finished the week modestly lower, despite renewed fears about the eurozone's sovereign debt crisis. Sentiment for riskier assets declined on Friday after Reuters reported that participation in a Greek private debt initiative was far weaker than anticipated. Other factors that drove the markets included concerns about a possible credit downgrade on Italian debt by Moody's along with reports that German Chancellor Angela Merkel's government is postponing legislation to create a permanent eurozone bailout fund.

Earlier in the week, the five of the world's major central banks agreed to inject U.S. dollars into the European banking system, as some banks have found it difficult to borrow dollars. Strategists suggest that while the move will relieve some pressures on troubled banks, it does not address the underlying problems that made it difficult for these banks to borrow dollars on their own. These underlying problems include whether the banks have enough capital to withstand a possible default by Greece on its government debt coupled with overall low levels of loan loss reserves.

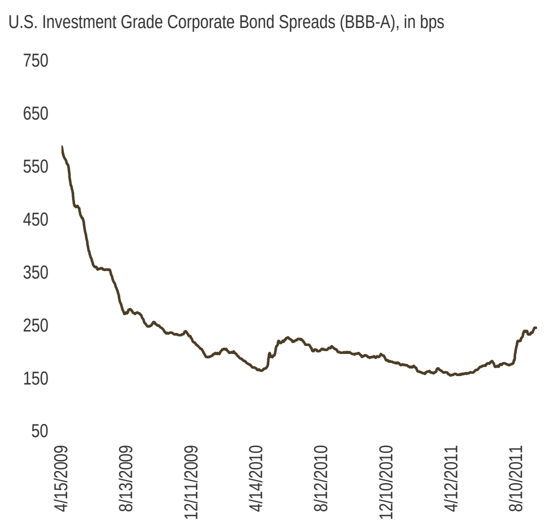
Looking ahead, some bond bulls are betting next week's monetary policy meeting will trigger further declines in yields as the central bank likely initiates what is known as Operation Twist. This stimulus program uses the proceeds from maturing bonds to purchase longer-dated Treasuries, pushing down yields and long-term borrowing costs for consumers.

| Issue | 9.9.11 | 9.16.11 | Change |
|---|---|---|---|
| 3 month T-Bill | 0.01% | 0.01% | 0.00% |
| 2-Year Treasury | 0.17% | 0.18% | 0.01% |
| 5-Year Treasury | 0.81% | 0.94% | 0.13% |
| 10-Year Treasury | 1.93% | 2.08% | 0.15% |
| 30-Year Treasury | 3.26% | 3.34% | 0.08% |

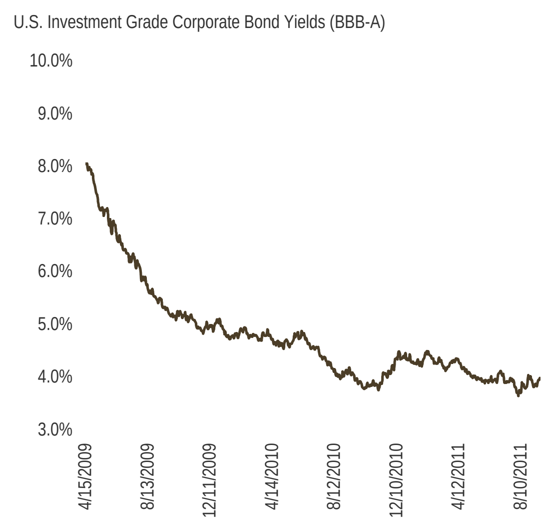
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.




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




Source: Merrill Lynch




Source: Merrill Lynch

## Stock Market Update

The stock market finished the week strong and produced the longest winning streak over the past two months. This week was a complete reversal from last week as every sector in the S&P 500 was in positive territory. Investors looked to the developments in Europe, where finance ministers held discussions regarding the debt crisis and the threat of default by debt-stricken Greece. The Dow Jones Industrial Average closed at 11,509.09, up 516 points for the week, or up 4.70%. The broader S&P 500 Index ended the week up 5.35% to close at 1,216.01, while the NASDAQ Composite finished higher by 61 points, or up 6.25% to close the week out at 2,622.31.

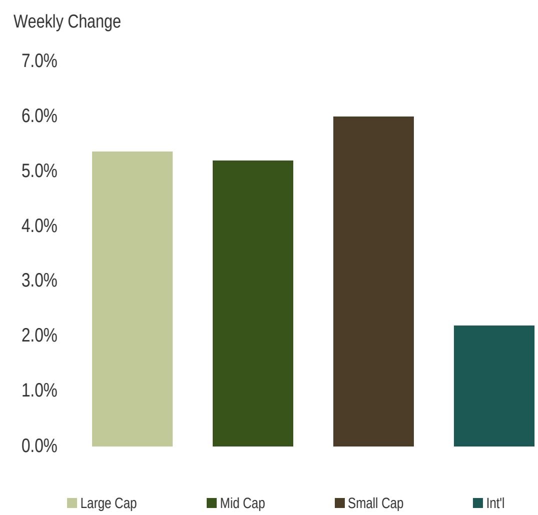
Moody's downgraded two banks in France this week, and they are currently investigating a possible downgrade to UBS. The firm announced Thursday a rogue trader caused a $2 billion trading loss. Analysts feel the bank is large enough to take the loss, and it will not affect the future prosperity of the bank. The trader was arrested the following day in London and charged with fraud by abuse of position and false accountancy.

Research in Motion (RIMM) fell after hours on Thursday when they announced another substandard quarter showing little enthusiasm for the company's new PlayBook Tablet. Along with a disappointment in the new product line, shipments for their smartphones were down well below analysts' expectations. Shares of RIMM fell over 18% on Friday.

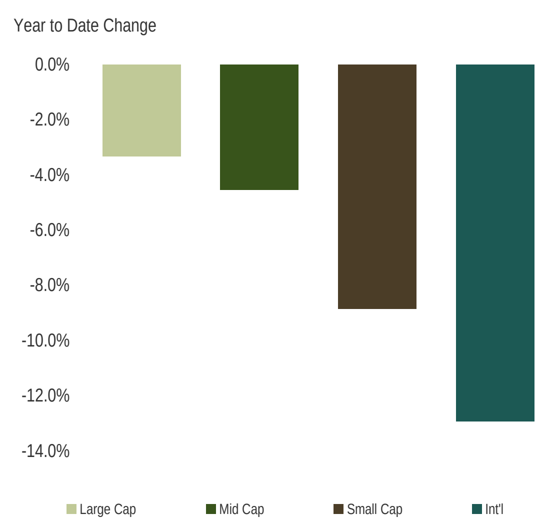
Shares of Netflix Inc. (NFLX) dropped on Thursday after the company came out with lowered quarterly subscriber forecasts. The company attributes the decline to plans to split its DVD-rental and video streaming business into two distinct plans. Currently, the subscriber pays $9.99 a month and receives both plans, and, beginning next month, the subscriber will pay $7.99 for each service or $15.98 for both. Shares of Netflix finished down almost 19% on the news to close at $169.25.

| Issue | 9.9.11 | 9.16.11 | Change |
|---|---|---|---|
| Dow Jones | 10,992.13 | 11,509.09 | 4.70% |
| S&P 500 | 1,154.23 | 1,216.01 | 5.35% |
| NASDAQ | 2,467.99 | 2,622.31 | 6.25% |
| Russell 1000 Growth | 542.19 | 571.97 | 5.49% |
| S&P MidCap 400 | 823.36 | 866.09 | 5.19% |
| Russell 2000 | 673.96 | 714.31 | 5.99% |
| MSCI EAFE | 1,405.87 | 1,436.62 | 2.19% |
| MSCI Small Cap | 1,013.53 | 963.72 | 1.51% |

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

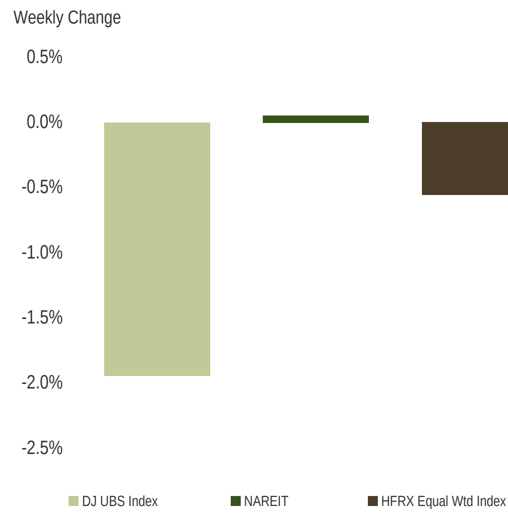
Gold hit a three week low earlier in the week with the European debt crisis still underpinning demand for the precious metal as a safe haven. The metal settled at $1,814.70 an ounce, down 2.48% for the week. Gold dropped to its lowest level since August 25 after the announcement of a coordinated move by the world's major central banks to pump dollars into the European financial system, easing the threat of a credit crunch in the near future.

Colony Financial Inc. and Starwood Property Trust Inc., the U.S. mortgage investors formed two years ago amid an expected surge of distressed debt, are turning to Europe as banks tighten lending and sell real estate loans. These real estate investment trusts (REITs) are seeking transactions overseas on expectations that delinquencies will rise and banks will dispose of more bad debt and make fewer loans in a weakening economy. The two companies are trading below their 2009 initial public offering prices as competition for U.S. transactions increases and lenders work out more distressed loans, limiting the their buying and financing opportunities. European lenders have 151.4 billion euros ($210.1 billion) of commercial real estate loans in default, compared with $121 billion at U.S. banks, according to a report from Bloomberg.

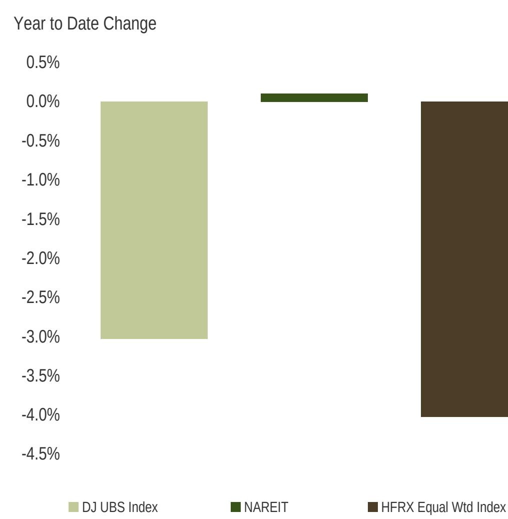
The hedge fund industry continues to grow, albeit at a slower pace, in Q2 2011. According to a recent report from Hedge Fund Research, Q2 added 280 new hedge funds to the industry. This is down 18 from the number of hedge funds that launched in Q1 2011, while the number of hedge funds closing in Q2, 191, was 10 more than in the previous quarter - a rate of 2.07%. Granted it is a slow rate, but the industry reached a record $2.04 trillion in assets in Q2 and the first half of 2011 remains the strongest six-months for hedge fund launches in four years. While lower fees continue to be supportive of this growth trend, the evolution of fund transparency is also a significant factor driving new fund launches, according to many experts.

| Issue | Previous Week | Current[1] | Change |
|---|---|---|---|
| Gold | 1,860.80 | 1,814.70 | -2.48% |
| Crude Oil Futures | 87.20 | 87.90 | 0.80% |
| Copper | 400.55 | 392.80 | -1.93% |
| Sugar | 27.64 | 26.31 | -4.81% |
| HFRX Equal Wtd. Strat. Index | 1,126.58 | 1,120.33 | -0.55% |
| HFRX Equity Hedge Index | 1,052.83 | 1,043.33 | -0.90% |
| HFRX Equity Market Neutral | 999.38 | 991.97 | -0.74% |
| HFRX Event Driven | 1,327.24 | 1,327.50 | 0.02% |
| HFRX Merger Arbitrage | 1,511.23 | 1,500.38 | -0.72% |
| Dow Jones UBS Commodity Index | 160.60 | 157.48 | -1.94% |
| FTSE/NAREIT All REIT | 134.46 | 134.53 | 0.05% |

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

MainStreet Advisors performance results reflect time-weighted rates of returns based upon MainStreet Advisors proprietary trading strategies. Performance results reflect the reinvestment of dividends and other earnings as well as the deduction of management and transaction fees. Performance does not reflect additional fees charged by institutions MainStreet Advisors provides investment services. In some cases, performance reflects the quarterly rebalancing of assets based upon MainStreet Advisors Tactical Asset Allocation Models.

Past performance may not be indicative of future results, and the performance of a specific individual account may vary substantially from performance presented herein. Therefore, no current or prospective client should assume that future performance will be profitable or equal the performance results reflected herein. In calculating account performance, MainStreet Advisors has relied upon information provided by various sources believed to be accurate and reliable but cannot be guaranteed. All past recommendations are available upon request. Investments in equities, fixed income, mutual funds, and exchange traded funds involve risk and may lose value.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable. MainStreet Advisors investment strategies may involve portfolio turnover, which could negatively impact the next after-tax gain experienced by an individual client.

MainStreet Advisors displays its performance results in addition to the market index that it believes represents a similar strategy in terms of asset allocation (stocks, bonds), generally accepted investment objectives (growth, income, or balanced), style benchmarks (growth, value, or core), geographic allocations (US, Foreign, or Global), sector allocation potential, and cap size objective (small cap, mid cap, or large cap). The index is shown in order for clients to make a comparison of performance for the designated time period. However, the indices shown above may not completely reflect the risk or volatility of the overall market or of the risk taken by the MainStreet Advisors program. The indices shown are not intended to be an absolute benchmark for the MainStreet Advisors program due to the fact that clients may not be able to duplicate exact holdings in the indices shown. MainStreet Advisors programs may reallocate some or all assets in the program to cash in response to market conditions, and MainStreet Advisors programs utilize a flexible management strategy with regard to equity selection, cap size, style, and asset allocation. It should be noted that market indices are always fully invested and holdings are limited to the index charter. The market index used for comparison is an unmanaged index and is a common measure of performance of the relevant stock markets. They are not available for direct investment.

Any investments purchased or sold are not deposit accounts and are not endorsed by or insured by the Federal Deposit Insurance Corporation (FDIC), are not obligations of the Bank, are not guaranteed by the Bank or any other entity, and involve investment risk, including possible loss of principal. MainStreet Advisors and Bank are independently owned and operated. MainStreet Advisors is an SEC registered investment advisor. Form ADV Part II is available upon request.

MAINSTREET ADVISORS™

120 North LaSalle Street, 37th Floor
Chicago, Illinois 60602
312.223.0270 direct
312.223.0276 fax
www.mainstreetadv.com