

MainStreet Advisors Financial Market Update

October 21, 2011
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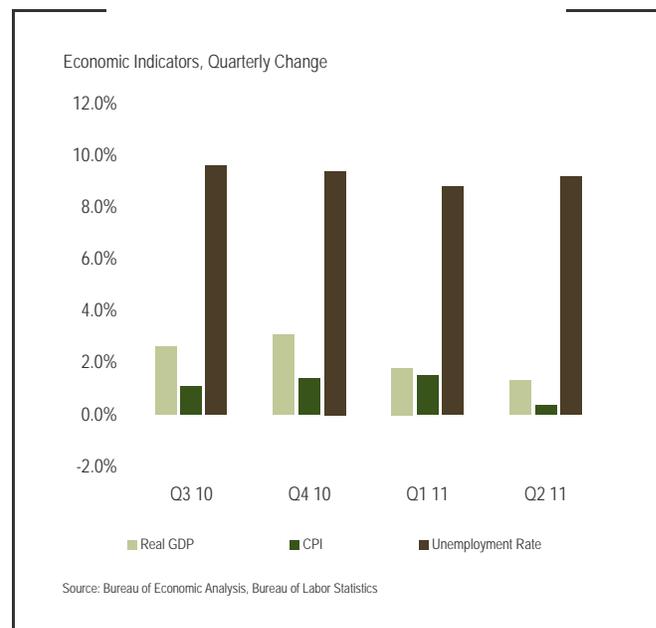
Economic Update

European leaders are meeting now and over the weekend in an effort to save Greece and shield banks from the fallout of the debt crisis. We need to see a detailed plan out of the October 23 summit that is concrete enough to persuade the market the Greek debt crisis will be contained. European leaders have underwhelmed for far too long. We believe investors are viewing this as a deadline for action, and failure at this juncture would increase market risk.

The Conference Board's Leading Economic Index for the U.S. increased 0.2% in September, slowing from a 0.3% increase in August and a 0.6% increase in July. The largest positive factor came from the rate differential between 10-year Treasuries and the fed funds rate, while a dip in housing permits held the index down. Ataman Ozyildirim, economist at The Conference Board said "the slow pace in the LEI suggests a growing chance that this sluggish economy is going to be here for a while."

Headline inflation for the consumer remained on the high side last month. The CPI followed up a 0.4% jump in August by rising another 0.3% in September, according to the Labor Department. The latest number was driven by a 2.0% increase in energy, with gasoline prices jumping 2.9%. Food prices continued to climb as well, up 0.4% for the month. Year-over-year CPI was 3.9%, edging up 0.1% from the previous month. Meanwhile, prices at the producer level came in well above expectations, surging 0.8% for the month. Like the consumer index, PPI was driven higher by rising energy prices. Both figures indicate inflation is not cooling; making it difficult for the Fed to do any further monetary easing.

Data released this week on the health of the housing market was mixed. Housing starts rebounded nicely, up 15.0% in September after declining 7.0% the month before, according to the Commerce Department. The weaker August number was in part due to the negative impact of Hurricane Irene. Housing permits fell 5.0%, however, indicating home builders are still being cautious. Meanwhile, data from the National Association of Realtors showed existing home sales fell 3.0% and the median existing home price fell 3.4%.

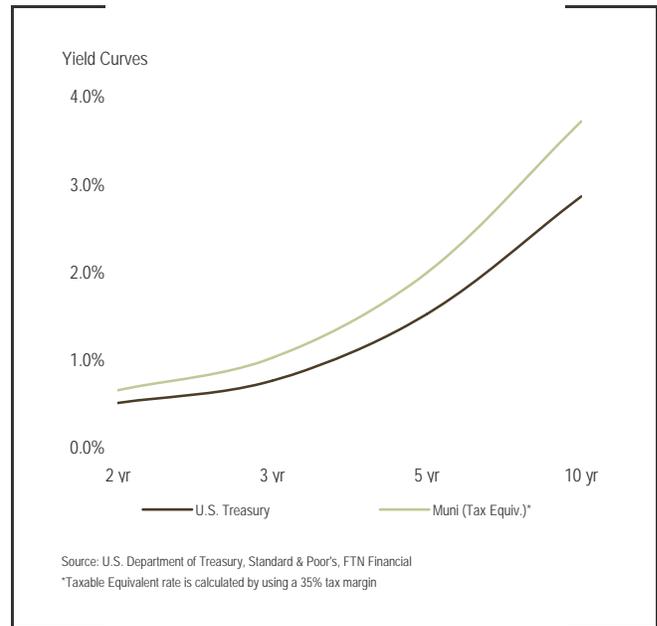


Oct. 17 th	Empire State Mfg Survey, October	-8.48
Oct. 17 th	Industrial Production, Sep. Monthly Chg.	0.2%
Oct. 18 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.1%
Oct. 18 th	Producer Price Index, September Monthly Chg.	0.8%
Oct. 18 th	Housing Market Index, October	18.0
Oct. 19 th	MBA Purchase Applications Index, Wkly. Chg.	-14.9%
Oct. 19 th	Consumer Price Index, September Monthly Chg.	0.3%
Oct. 19 th	Housing Starts, September	658,000
Oct. 19 th	EIA Petroleum Status Report, Wkly. Chg.	-4.7M Barrels
Oct. 20 th	Initial Jobless Claims (week ending 10/15)	403,000
Oct. 20 th	Existing Home Sales, September SAAR*	4.91M
Oct. 20 th	Philadelphia Fed Survey, October	8.7
Oct. 20 th	Leading Indicators, Sep. Monthly Chg.	0.2%

Bond Market Update

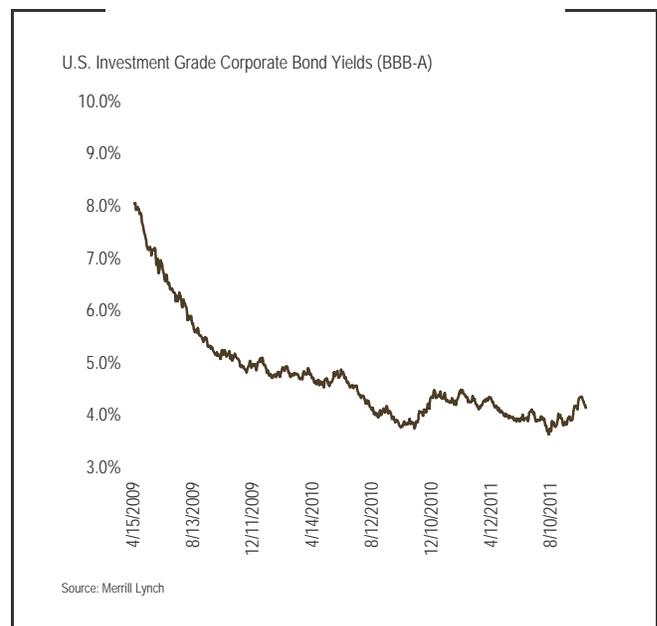
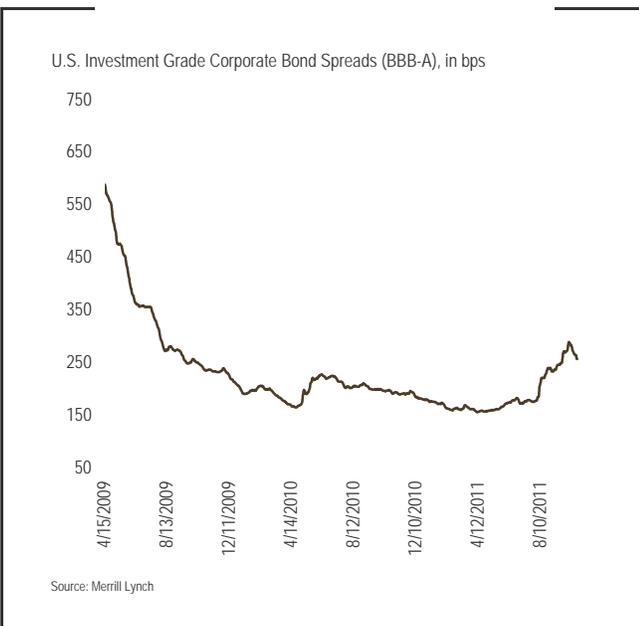
U.S. Treasuries displayed no clear direction for the week, finishing mostly unchanged as investors await a report from European leaders addressing steps to ease the region's debt crisis at summit meetings to be held over the weekend. France and Germany said in a joint statement on Thursday policy makers would discuss a global solution to the sovereign debt crisis, but no decisions would be adopted before a second meeting to be held by Wednesday at the latest. European governments may deploy as much as 940 billion euros (\$1.3 trillion) to fight the debt crisis, possibly combining the EU's temporary and planned permanent rescue funds, while scrapping a ceiling on bailout spending.

Separately, Federal Reserve Vice Chairman Janet Yellen said a third round of quantitative easing might become warranted if the U.S. economy fails to show signs of a recovery. Strategists feel the remarks signal the Fed may be prepared to dig deeper into unprecedented monetary territory, despite criticism relating to expanding the nation's debt burden, as policy makers struggle to lower unemployment levels without boosting inflation.



Issue	10.14.11	10.21.11	Change
3 month T-Bill	0.02%	0.02%	0.00%
2-Year Treasury	0.28%	0.30%	0.02%
5-Year Treasury	1.12%	1.08%	-0.04%
10-Year Treasury	2.26%	2.23%	-0.03%
30-Year Treasury	3.22%	3.26%	0.04%

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



Stock Market Update

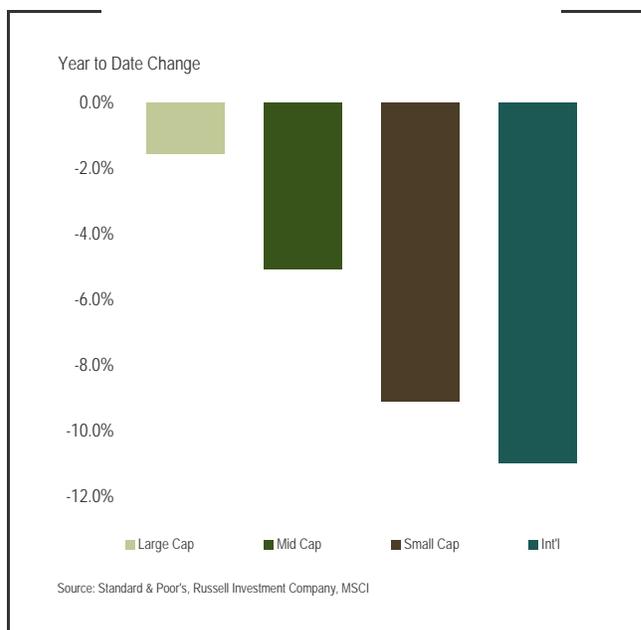
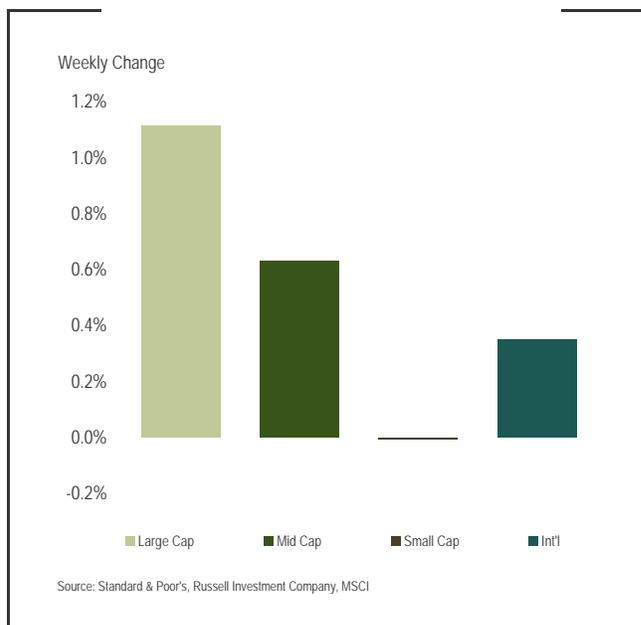
Stock markets were mixed this week as the Dow and the S&P 500 closed up for the third week in a row while the NASDAQ closed slightly down. Positive corporate earnings reports as well as hopes for a resolution of the Greek debt crisis fueled the continuation of the October rally. For the week, the Dow increased 1.4% to close at 11808.79. The broader S&P 500 Index closed at 1238.25, up 1.1% from the prior week. The NASDAQ Composite Index fell 1.1% for the week to close at 2637.46.

International markets were generally down due to uncertainty about the upcoming summit meeting of European leaders this weekend in Europe. Reports that Germany and France disagree on how to boost the European Financial Stability Fund led to increased volatility. European bank shares continued to be especially weak. News of China's slowing GDP growth (from 9.5% to 9.1%) led to profit-taking in European luxury goods and mining companies that rely heavily on strength in China. Major flooding in Thailand leading to plant closures at Western Digital negatively impacted PC makers Hewlett Packard (HPO) and Dell (DELL).

With 25% of S&P 500 companies reported, 67% have beaten consensus earnings estimates. Consumer staples and technology stocks outperformed on solid earnings reports. Healthcare products stocks underperformed despite strong results. Apple (AAPL) was weak as revenue came in below expectations, but the company raised fiscal first quarter guidance on very strong iPhone 4S sales. American Express (AXP) reported 9% revenue growth on a 16% increase in cardmember spending. Homebuilding stocks were up double-digits for the week on reports of a 15% increase in housing starts last month.

Issue	10.14.11	10.21.11	Change
Dow Jones	11,644.49	11,808.79	1.41%
S&P 500	1,224.58	1,238.25	1.12%
NASDAQ	2,667.85	2,637.46	-1.14%
Russell 1000 Growth	576.47	576.73	0.05%
S&P MidCap 400	855.84	861.25	0.63%
Russell 2000	712.46	712.42	-0.01%
MSCI EAFE	1,463.69	1,468.80	0.35%
MSCI Small Cap	930.47	907.71	0.07%

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 was up more than \$23-an-ounce on Friday, ending a four-session losing streak as lower prices and a weaker dollar helped entice investors back to the precious metal. Another factor many experts attribute to the rise of gold at the end of the week was two of the eurozone's biggest powers, France and Germany, announcing they would meet twice in the upcoming week to try and prevent the sovereign debt crisis from engulfing the entire eurozone. For the week, however, the metal still took a loss, dropping 2.47% or \$41.50, to settle at \$1,640.40 an ounce. Some analysts noted the gold market remains "bearish and could start to come under pressure again heading towards the end of the month."

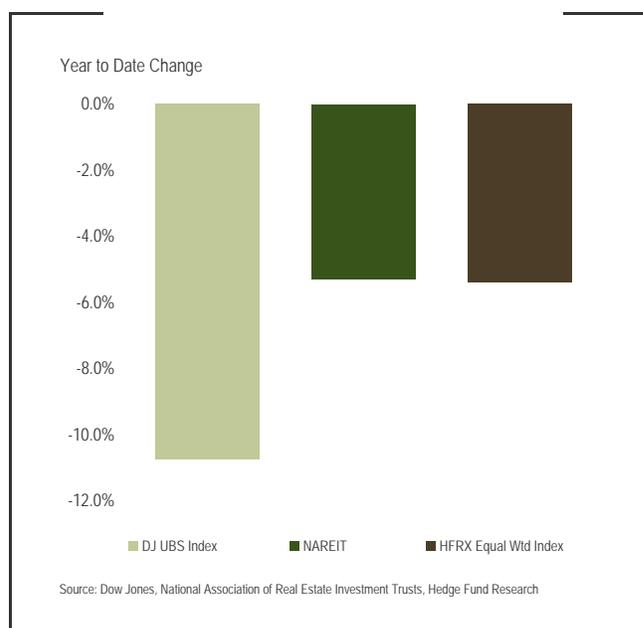
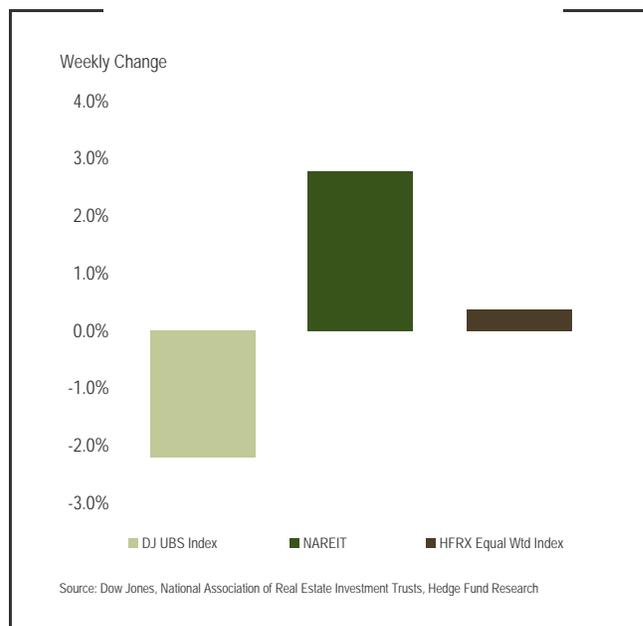
Crude oil ended the week up 0.42%, settling at \$87.64 a barrel, for its third straight weekly gain. Crude was down for most of the week, but pared its losses on Friday with European leaders announcing their attempt to adopt a strategy addressing the debt crisis in the coming weeks. The oil market may also be affected one way or another by the death of former Libyan dictator Mammur Gadhafi, with attention now being focused on the difficulties of restoring production. Libya's oil reserves are the ninth largest in the world, but production had been subpar due to aging infrastructure.

Hedge funds and private equity funds with assets over \$1 billion will be required to provide "extraordinary amounts" of data to the U.S. Securities and Exchange Commission (SEC) if a proposed rule passes later this month. According to FinAlternatives, this data would include information on fund assets, leverage, investment positions, valuation and trading practices, on top of being subjected to routine inspections. SEC chairman Mary Schapiro stated earlier this week the SEC had "high hopes for the Form PF data," which she mentioned would help the agency and the Financial Stability Oversight Council "understand where the risks are in the financial system." Schapiro noted the SEC would not consider short-selling restrictions like those to be imposed in the EU. The form, required under the Dodd-Frank Act, is intended to help regulators avoid another collapse, like that of the Long Term Capital in 1998, which could threaten to destabilize the financial system.

Issue	Previous Week	Current ¹	Change
Gold	1,681.90	1,640.40	-2.47%
Crude Oil Futures	87.27	87.64	0.42%
Copper	342.95	325.90	-4.97%
Sugar	27.93	26.48	-5.19%
HFRX Equal Wtd. Strat. Index	1,100.48	1,104.51	0.37%
HFRX Equity Hedge Index	1,017.95	1,020.64	0.26%
HFRX Equity Market Neutral	979.21	980.49	0.13%
HFRX Event Driven	1,306.80	1,313.60	0.52%
HFRX Merger Arbitrage	1,486.34	1,488.61	0.15%
Dow Jones UBS Commodity Index	148.21	144.95	-2.20%
FTSE/NAREIT All REIT	123.86	127.30	2.78%

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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