

MainStreet Advisors Financial Market Update

October 28, 2011
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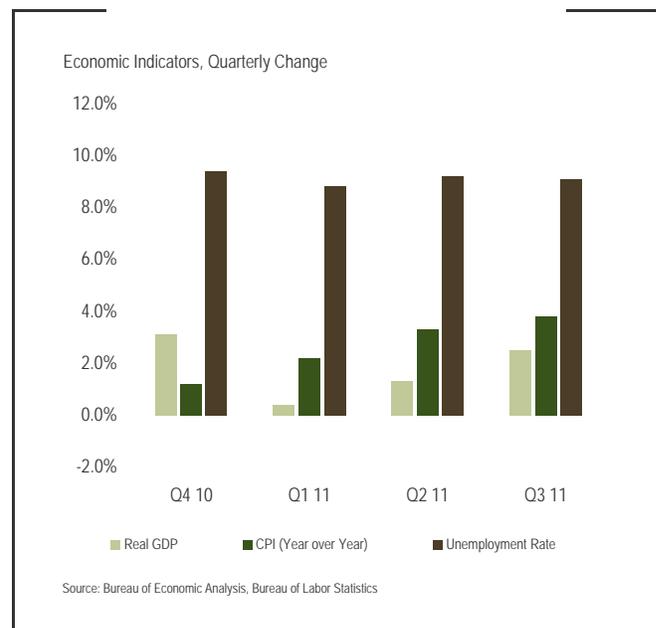
Economic Update

European Union leaders reached an agreement early Thursday that involved leveraging up the European Financial Stability Facility (EFSF) to €1 trillion and getting banks to agree to a 50% haircut on Greek bonds. Klaus Regling, the head of the EFSF, is confident China will be a contributor to the fund. There are still some details that need to be hammered out, but for the moment it seems this plan could be sufficiently adequate to stem contagion and get Greece's debt situation under control. Getting Greece out of the headlines and removing this large uncertainty should bode well for the markets.

Fears of a double-dip recession eased this week as a report was released showing economic growth nearly doubled in the third quarter. GDP growth improved to a 2.5% annualized rate from a sluggish 1.3% rate in the second quarter, according to the Commerce Department. This marked the first time the overall inflation-adjusted level of economic output topped the fourth quarter 2007 figure, the last reading before the Great Recession began.

Consumer confidence fell sharply in October dropping 6.6 points to 39.8 as concerns over business conditions, the labor market and income prospects increased. Lynn Franco, Director of The Conference Board Consumer Research Center said "Consumer confidence is now back to levels last seen during the 2008-2009 recession." Despite the lack of confidence, it does not appear to be having a negative impact on consumer spending which increased 0.6% in September.

The housing market is still stuck in the doldrums. Sales of new homes are improving while prices are contracting, according to a report from the Commerce Department. New home sales were up 5.7% in September bringing the current supply down to a year-and-a-half low of 6.2 months. Median prices softened for the third straight month, however, falling 3.1% to \$204,400. The market for existing homes looked weaker with pending sales down 4.6%, according to the National Association of Realtors. Meanwhile, the Case Shiller 20-city index was flat for the month of August after edging down 0.1% each of the previous three months.



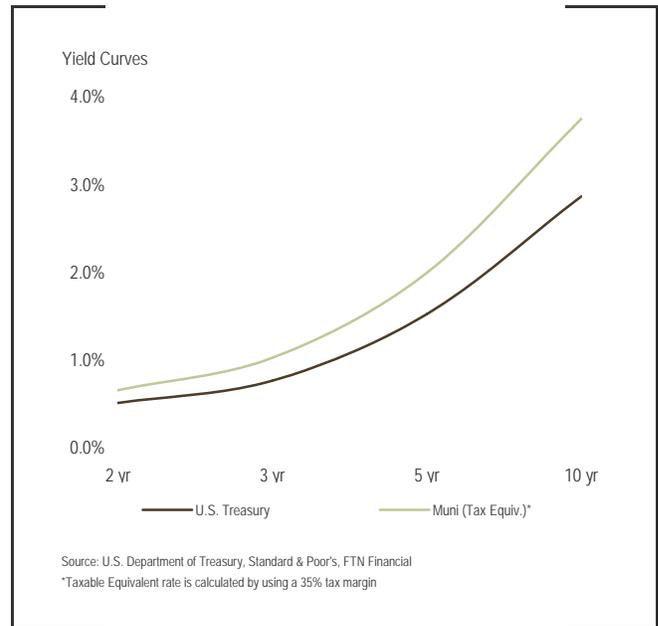
Oct. 25 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.8%
Oct. 25 th	S&P/Case-Shiller 20-city Index, Aug. Monthly Chg.	0.2%
Oct. 25 th	Consumer Confidence Index, October	39.8
Oct. 25 th	State Street Investor Confidence Index, October	96.7
Oct. 26 th	MBA Purchase Applications Index, Wkly. Chg.	4.9%
Oct. 26 th	Durable Goods New Orders, Sep. Monthly Chg.	-0.8%
Oct. 26 th	New Home Sales, September	313,000
Oct. 26 th	EIA Petroleum Status Report, Wkly. Chg.	4.7M Barrels
Oct. 27 th	GDP Price Index, Q3a Quarterly Change SAAR*	2.5%
Oct. 27 th	Initial Jobless Claims (week ending 10/22)	402,000
Oct. 27 th	Pending Home Sales, Sep. Monthly Chg.	-4.6%
Oct. 27 th	EIA Natural Gas Report, Wkly. Chg.	92 bcf
Oct. 28 th	Employment Cost Index, Q3 Quarterly Change	0.3%
Oct. 28 th	Consumer Sentiment Index, October	60.9

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

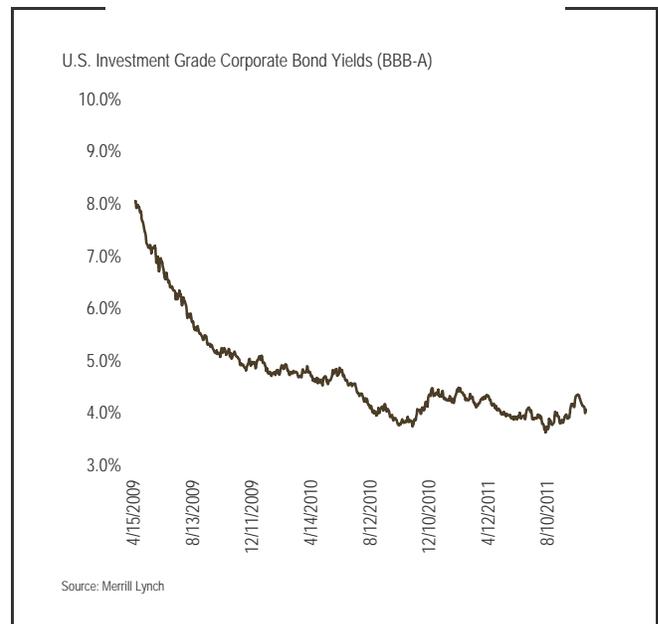
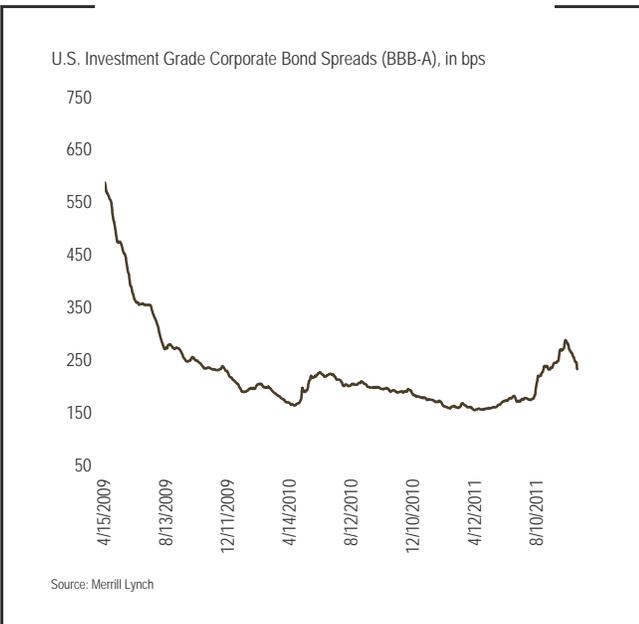
Despite a considerable rally on Friday, U.S. Treasuries finished lower for the fifth straight week, the longest losing streak in more than two years. The safety these securities offer seems to have lost its appeal, with government debt auctions drawing little interest to recent similar sales. Adding to the selling pressure are recent signs the U.S. economy has stabilized along with rumors the Federal Reserve may initiate another round of quantitative easing, helping riskier asset classes at the expense of safe-haven Treasuries. The Fed's preferred inflation measure, the core personal consumption expenditure (PCE) deflator, remains low at just 1.6%, according to a government report released on Friday. Strategists suggest the central bank will likely take the view that inflation is under control and may take fresh measures to aid the economy.

Meanwhile, municipal bond yields topped those of similar maturity Treasuries for the eighth straight week, the longest stretch since 2009. Strategists are suggesting the higher muni-to-Treasury ratio could continue through the November 2012 presidential election because the Federal Reserve has said it will hold its benchmark interest rate at zero until mid-2013, and investors will likely wait to see if federal income tax breaks expire at the end of 2012. Because of an improving fiscal environment and attractive valuations, investors should continue to purchase intermediate-term, high-quality bonds.



Issue	10.21.11	10.28.11	Change
3 month T-Bill	0.02%	0.01%	-0.01%
2-Year Treasury	0.30%	0.28%	-0.02%
5-Year Treasury	1.08%	1.13%	0.05%
10-Year Treasury	2.23%	2.34%	0.11%
30-Year Treasury	3.26%	3.36%	0.10%

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



Stock Market Update

The stock market hovered between gains and losses on Friday as the market seemed to take a breather after a two-day rally. Thursday was particularly strong as investors awoke to the news of progress being made in combating the European debt crisis. The Dow Jones Industrial Average closed at 12,231.11, up 422 points for the week, or up 3.58%. The broader S&P 500 Index ended the week up 3.78% to close at 1,285.08, while the NASDAQ Composite finished higher by 100 points, or up 3.78% to close the week out at 2,737.15.

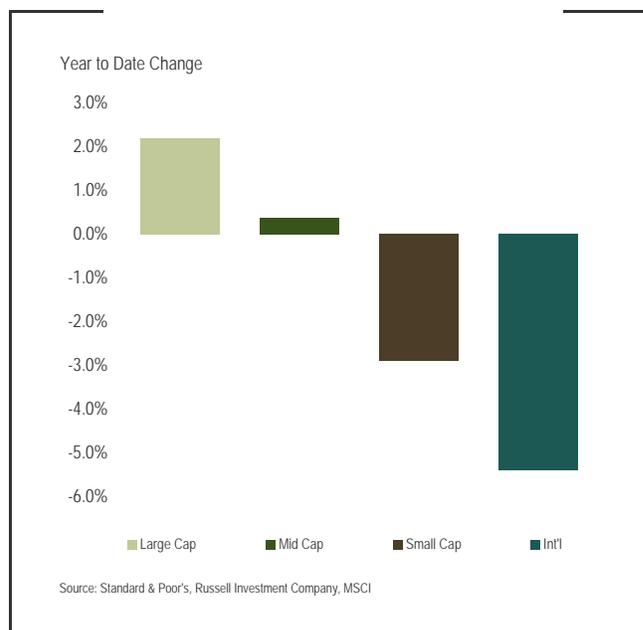
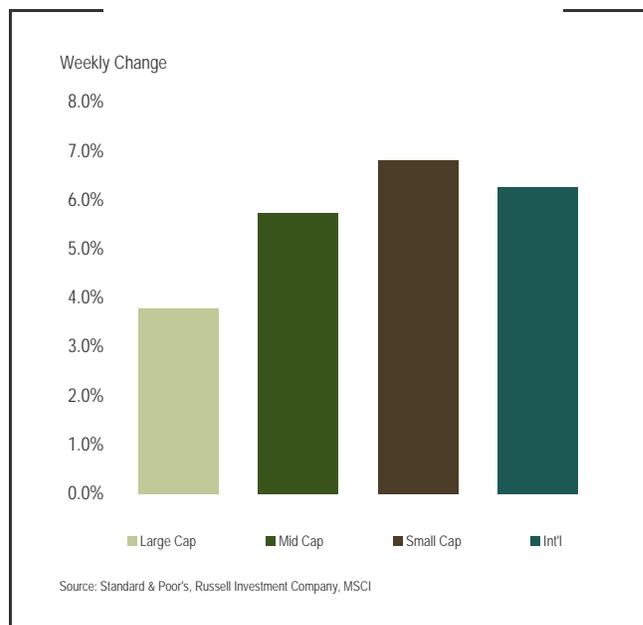
Shares of European companies rallied on the news that progress is being made after 21 months of discussions and fourteen different meetings with country leaders. The MSCI EAFE Index rose 6.27% for the week with a broadly-based rally across all countries and sectors. In particular, the foreign bank stocks rallied on the news a relief plan is beginning to take shape.

Shares of Netflix (NFLX) were hit hardest this week after the company reported quarterly earnings below the lofty expectations placed on the company by Wall Street analysts. The company had taken a hit earlier in the year as investors reacted negatively to the significant price hike and access to both DVDs and online video streaming. The company maintains a significant cash position, but Monday it was announced they lost 800,000 subscribers in the third quarter, causing concerns with regards to the company's ambitious, international growth plans. Shares of Netflix are down over 50% year-to-date after the earnings announcement on Monday.

Coinstar (CSTR), the parent company of Redbox offering DVDs through rental kiosks, is now facing a similar situation as Netflix. On Thursday, the company announced they will be boosting prices by 20% from \$1.00 to \$1.20, citing a need to maintain a higher profit margin and overcome high costs. The market viewed this announcement much the same as the price hike by Netflix, and Coinstar's shares fell 9% on Friday.

Issue	10.21.11	10.28.11	Change
Dow Jones	11,808.79	12,231.11	3.58%
S&P 500	1,238.25	1,285.08	3.78%
NASDAQ	2,637.46	2,737.15	3.78%
Russell 1000 Growth	576.73	598.07	3.70%
S&P MidCap 400	861.25	910.64	5.73%
Russell 2000	712.42	761	6.82%
MSCI EAFE	1,468.80	1,560.85	6.27%
MSCI Small Cap	907.71	993.81	5.48%

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 up 6.35%, or \$104, settling at \$1,744.50 an ounce, after the dollar dropped this week following the eurozone agreement to boost the region's bailout fund and slash Greece's debt. Crude oil closed at \$93.47 a barrel, up 6.65% from the previous week, thanks also to a deal being reached, as well as news of the U.S. economy expanding in Q3. Although both finished with weekly gains, gold and oil slipped on Friday over concerns regarding the actual details of the eurozone deal.

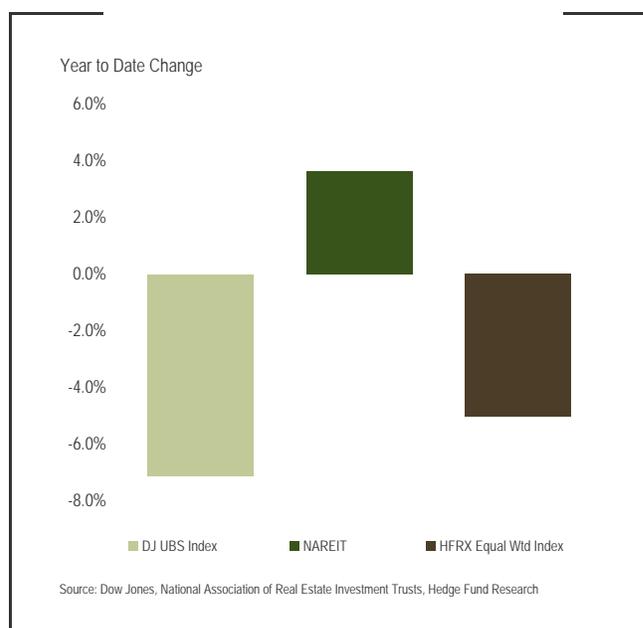
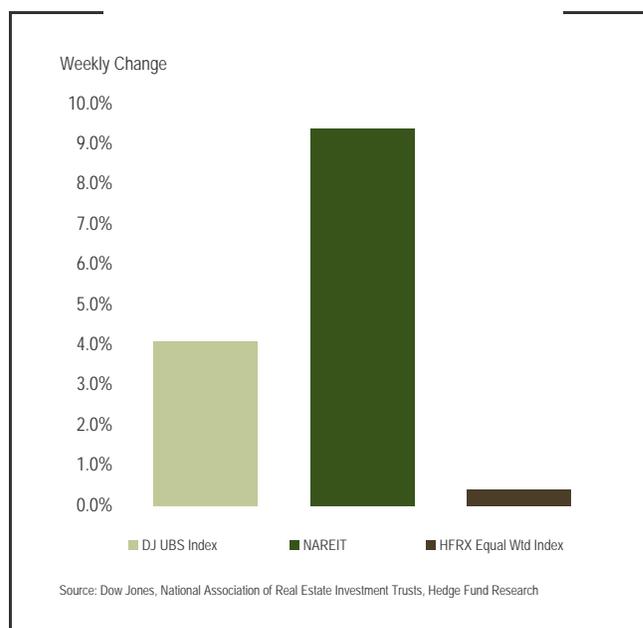
Although 2011 returns have not been what real estate investment trust (REITs) investors had hoped, REITs continue to outperform the major markets and remain well-positioned during times of economic uncertainty. In a report this week from REIT.com, experts believe REITs as a whole are in relatively good shape, thanks to improving underlying property fundamentals, favorable market dynamics and access to capital. In terms of growth potential, REITs today are heavily dependent on mergers and acquisitions, as well as driving increases in rents, mainly due to a lack of new construction activity. For the week, the FTSE/NAREIT All REIT index was up 9.38% to close at 139.24.

The U.S. Securities and Exchange Commission (SEC) approved a ruling this week requiring hedge funds to disclose a vast amount of information to the regulator. The SEC unanimously approved the new information-gathering measure after easing its stringency slightly. The original proposal, which was issued in January, forced all hedge fund and private equity firms with at least \$1 billion in assets to make the confidential disclosures quarterly; the new ruling, however, imposes that requirement on hedge fund managers with \$1.5 billion in assets or more and private equity firms with \$2 billion or more. According to FinAlternatives, all hedge and private equity fund firms with at least \$150 million in assets will be required to make some disclosures to the SEC, but only the biggest, roughly 230 hedge funds and 155 private equity firms, will be subject to the severest requirements, including information on assets, leverage, positions, valuation and trading.

Issue	Previous Week	Current ¹	Change
Gold	1,640.40	1,744.50	6.35%
Crude Oil Futures	87.64	93.47	6.65%
Copper	325.90	371.65	14.04%
Sugar	26.48	26.15	-1.25%
HFRX Equal Wtd. Strat. Index	1,104.51	1,108.88	0.40%
HFRX Equity Hedge Index	1,020.64	1,020.61	0.00%
HFRX Equity Market Neutral	980.49	982.92	0.25%
HFRX Event Driven	1,313.60	1,322.34	0.67%
HFRX Merger Arbitrage	1,488.61	1,498.72	0.68%
Dow Jones UBS Commodity Index	144.95	150.87	4.09%
FTSE/NAREIT All REIT	127.30	139.24	9.38%

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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