MainStreet Advisors
Financial Market Update

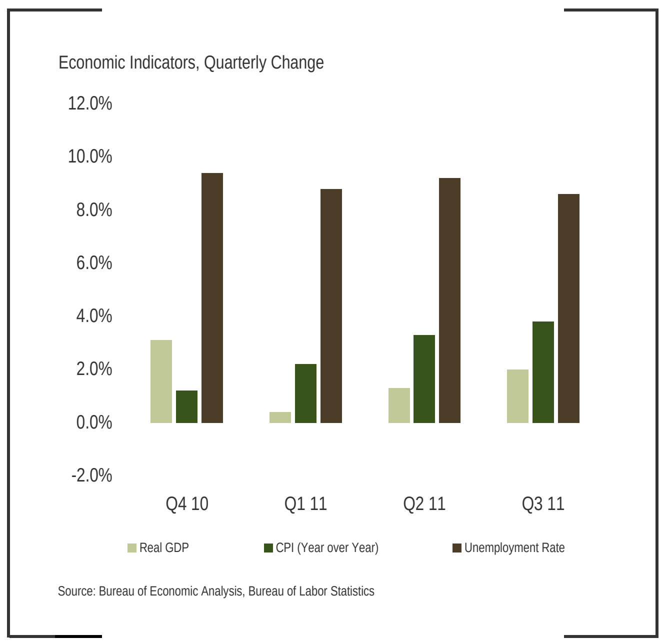
January 6, 2012

Economic Update

The jobs market ended the year with a strong push, according to a report from the Labor Department. 200,000 jobs were added in December, bringing the total for 2011 up to 1.6 million. The private sector surpassed the total yet again with 212,000 jobs added while the long-term trend of declining government payrolls continued with a loss of 12,000. The payroll gains helped push the unemployment rate down from a revised 8.7% in November to 8.5%, the lowest level since February 2009. Initial jobless claims for the week ended December 31 fell 15,000 to 372,000. The four-week moving average moved down for a fifth straight week to a recovery low of 373,250. The employment data is showing us businesses are starting to lay off fewer workers and hire more. Hopefully this year-end momentum will carry into 2012.

According to Challenger, Gray & Christmas, employers announced plans to shed 41,785 workers from their payrolls in December – the lowest level since June. The financial sector had the largest number of layoffs. Although government cuts were not a big factor this month, this has not been the case throughout the year. CEO John A. Challenger said “Job cuts in 2011 were dominated by the government and financial sectors. These two alone accounted for 41 percent of all the job cuts announced last year.” He believes it is likely this trend will continue in 2012 as the Federal Government is under intense pressure to cut spending and the European debt crisis hangs over Wall Street.

There was more good economic news as manufacturing expanded for the 29th consecutive month, according to the Institute for Supply Management. The PMI registered 53.9 in December, up 1.2 points from November's reading of 52.7, the highest reading since June. New orders followed up a very strong 4.3 point jump last month with a nearly one point gain in December to 57.6 signaling further acceleration. The non-manufacturing sector also expanded, but at a slower rate. The composite was up 0.6 points to 52.6, but below expectations. The report indicates while economic growth is accelerating, the recovery is not robust in all areas.



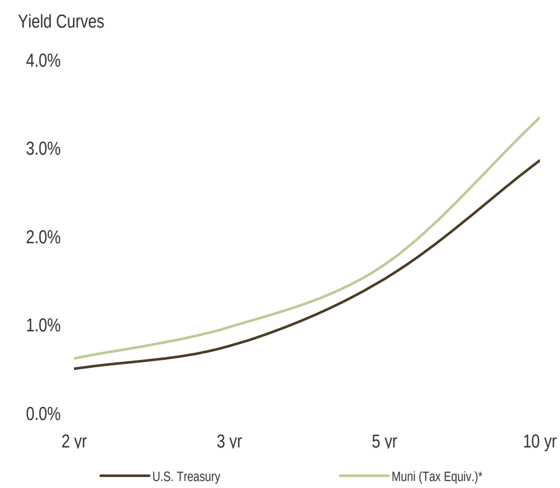
Jan. 3rd	ISM Mfg. Index - Level, December	53.9
Jan. 3rd	Consumer Spending, Nov. Monthly Chg.	1.2%
Jan. 4th	MBA Purchase Applications Index, Wkly. Chg.	-3.7%
Jan. 4th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.2%
Jan. 4th	Factory Orders, Nov. Monthly Chg.	1.8%
Jan. 5th	Initial Jobless Claims (week ending 12/31)	372,000
Jan. 5th	ISM Non-Mfg. Index, December	52.6
Jan. 5th	EIA Natural Gas Report, Wkly. Chg.	-76 bcf
Jan. 5th	EIA Petroleum Status Report, Wkly. Chg.	2.2M Barrels
Jan. 6th	Non-farm Payrolls, Dec. Monthly Chg.	200,000
Jan. 6th	Unemployment Rate, December	8.5%

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 finished the week lower as several reports signaled the economy may be gathering momentum, sapping demand for the safe-haven securities. However, the outlook for Europe has deteriorated, with yields on Italian 10-year bonds, which has more than $2 trillion of debt, closing above the 7.0% level that preceded bailouts for Greece, Ireland and Portugal. Data on Friday added to concerns, showing confidence for the European economic outlook slumped to the lowest level in more than two years and unemployment remained at a 13-year high.

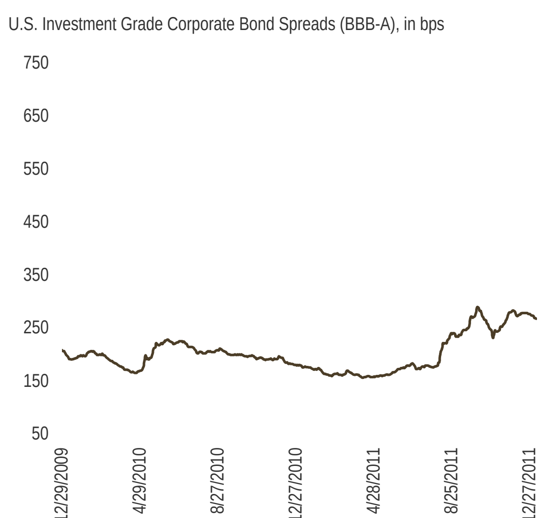
Meanwhile, investment grade corporate bonds gained for the week, adding to last year's strong performance. The spread, or extra interest investors demand to own corporate debt rather than Treasuries of similar maturities, fell to 2.67% down from the two-year high of 2.89% reached in October 2011. Looking ahead, many analysts feel credit spreads can tighten further given that fundamentals continue to improve and defaults remain low. At the same time, until the market starts pricing in the possibility of Fed tightening, investors are likely to continue to reach for yield in spread products. Despite regulatory uncertainties, financials, particularly banks, should be favored as they are likely to benefit from still wide spreads along with a likely improvement in the credit cycle.



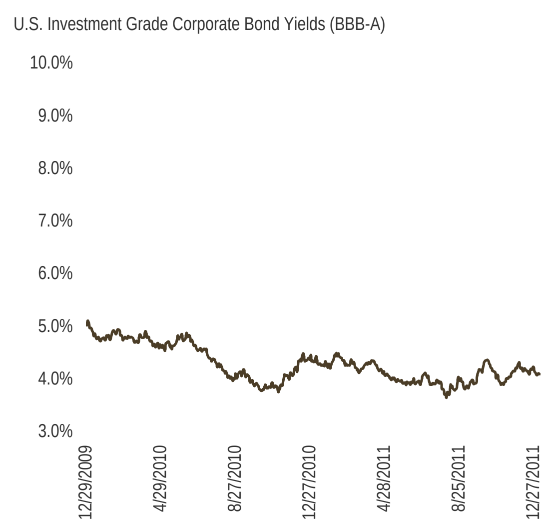
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	12.30.11	1.6.12	Change
3 month T-Bill	0.02%	0.02%	0.00%
2-Year Treasury	0.28%	0.25%	-0.03%
5-Year Treasury	0.88%	0.86%	-0.02%
10-Year Treasury	1.91%	1.98%	0.07%
30-Year Treasury	2.90%	3.02%	0.12%

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



Source: Merrill Lynch



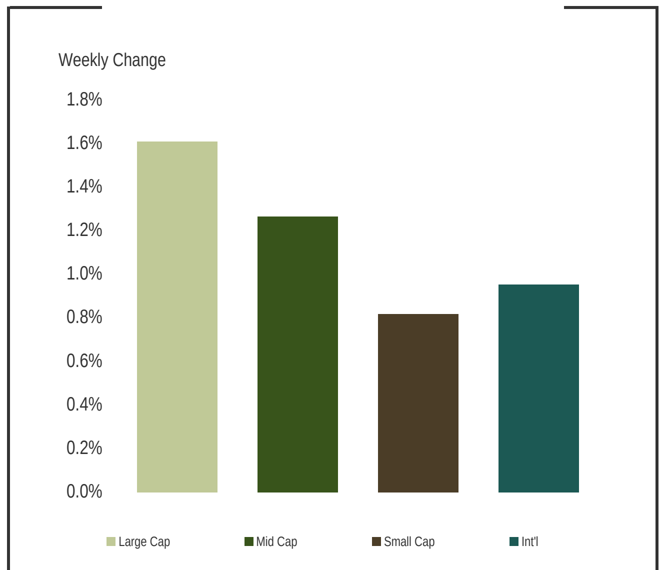
Source: Merrill Lynch

Stock Market Update

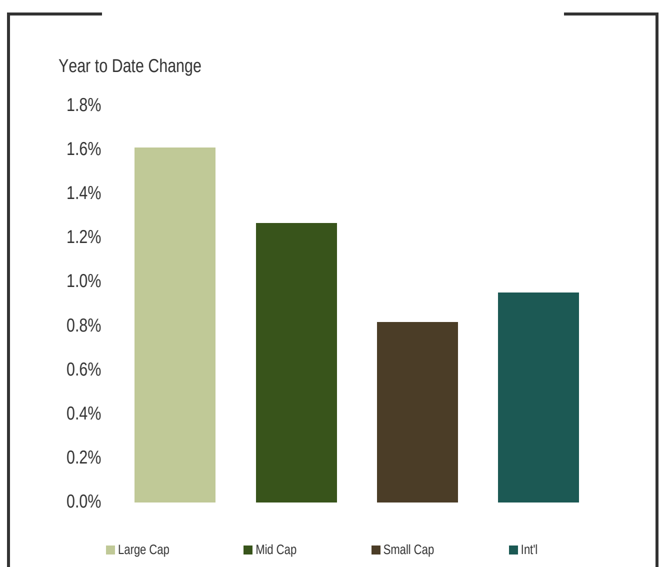
Stocks were mostly positive through the first week of 2012, leaving investors hopeful for the year ahead. Following better than expected manufacturing data from Germany, China and the U.S., stocks rallied on Tuesday. Strength was seen in Financials and Materials stocks while Utilities were weak, a reversal of last years' performance. Concerns over liquidity at European banks once again spooked the markets on Wednesday, but stocks rebounded towards the end of the week in the wake of more positive economic data. The Dow Jones Industrial Average increased 1.2% to end the week at 12359.92. The broader S&P 500 Index closed at 1277.81, up 1.6%. The NASDAQ Composite Index rose 2.7% to 2674.22 as investors found bargains in Technology stock; Microsoft increased 8% and Apple was higher by 4.3%.

International markets were mixed this past week. Asian stocks were basically flat while most European markets were higher. The DAX Index increased 2.7%, and Germany announced its unemployment rate had fallen to 6.8%, a two-decade low. The FTSE 100 index in the UK closed 1.4% higher than last Friday. France's CAC 40 Index fell 0.7%, while Spain's IBEX Index was lower by 3.2%.

Retailers reported comparable sales for the holiday season this week with many coming in below expectations. Poor weather and heightened discounting forced several retailers to lower their fourth quarter profit forecasts, including Target, Kohl's and JC Penney. Luxury retailers fared better with same store sales at Saks up 6% and Nordstrom up 9%. In other corporate news, Kodak announced it is preparing to seek bankruptcy protection, and Yahoo named the president of Ebay's Pay Pal division as its new CEO. Ford reported 2011 vehicle sales up 11%, while GM's sales increased 13% over 2010; both companies expect even higher sales gains in 2012.



Source: Standard & Poor's, Russell Investment Company, MSCI



Source: Standard & Poor's, Russell Investment Company, MSCI

Issue	12.30.11	1.6.12	Change
Dow Jones	12,217.56	12,359.92	1.17%
S&P 500	1,257.60	1,277.81	1.61%
NASDAQ	2,605.15	2,674.22	2.65%
Russell 1000 Growth	582.07	590.49	1.45%
S&P MidCap 400	880.36	891.49	1.26%
Russell 2000	743.64	749.71	0.82%
MSCI EAFE	1,393.45	1,406.71	0.95%
MSCI Small Cap	914.21	932.44	1.82%

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.

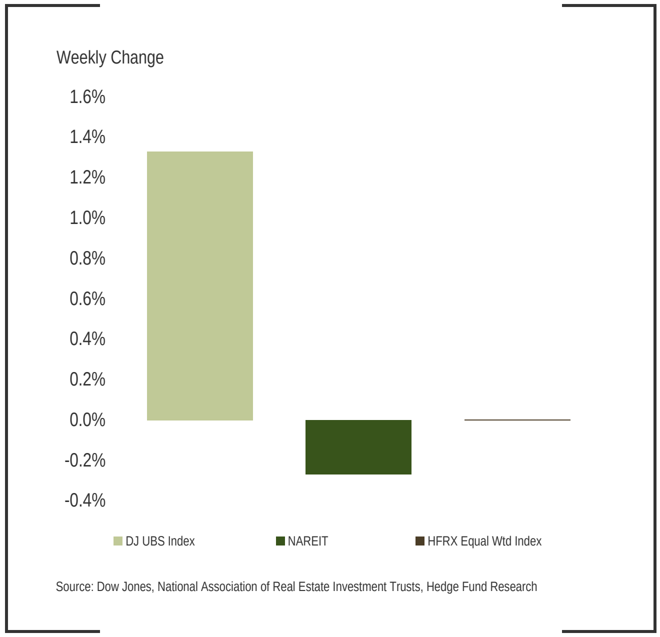
Alternative Investments Market Update

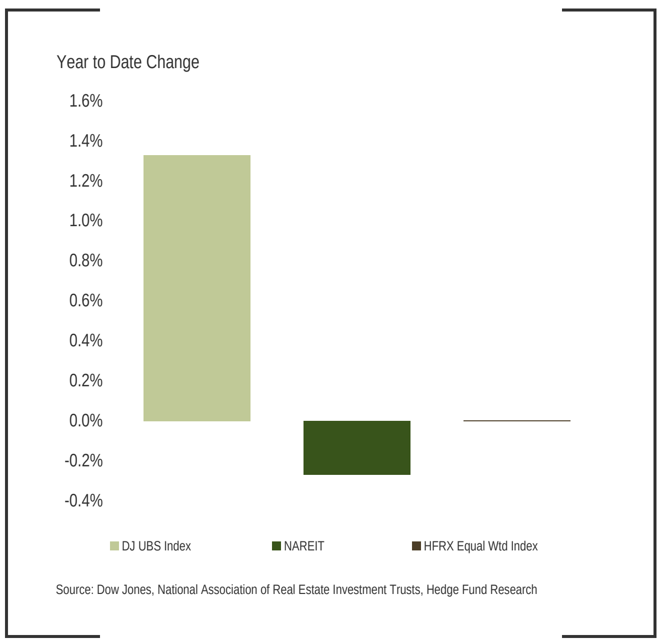
Gold ended the week up 3.29%, settling at $1,617.70 an ounce; the precious metal's biggest weekly gain in five weeks. However, the metal could have posted higher returns had it not been for better than forecasted U.S. job growth coupled with the unemployment rate hitting a three-year low, both of which were reported on Friday. After ending 2011 up nearly 10%, many analysts expect the metal to continue to climb for its 12th year in a row and to reach record highs in 2012. Oil prices started 2012 on the rise as well, continuing a trend from last year. Crude oil gained 19% in 2011, averaging around $95 a barrel. For the week, crude gained 2.84%, closing at $101.80 a barrel, on growing tension in the Persian Gulf as Iran threatens to block the Strait of Hormuz, which provides the only way out of the Gulf for oil tankers carrying one-sixth of the world's exports.

Coming out of a year where the equity real estate investment trusts (REITs) returns were four times higher than those of the broader stock market, REITs are now perceived as fully valued under current market conditions, being an attractive investment based on their yields. According to the National Association of Real Estate Investment Trusts (NAREIT) the total return of the FTSE NAREIT All Equity REITs Index was up 8.28% for the year and the FTSE NAREIT All REITs Index, which includes both equity and mortgage REITs, was up 7.28%, compared with a 2.11% gain for the S&P 500. The more than 8% gain for equity REITs in 2011 comes on top of the 27.95% gain in 2010 and the 27.99% increase in 2009 while the S&P 500 gained 15.06% and 26.46%, respectively, during those periods. NAREIT went on to note that equity REITs have outperformed the S&P 500 for the past 1-, 3-, 10-, 15-, 20-, 25-, 30-, and 35-year periods. REITs also raised $51.3 billion in public equity and debt last year, more than the $49 billion raised in the previous record year of 2006. Additionally, in spite of 2011's volatile stock market, $37.5 billion of the capital raised came from public equity, compared with $22 billion in 2006 and $32.7 billion in 1997, the prior record years for REIT equity offerings.

Issue	Previous Week	Current[1]	Change
Gold	1,566.20	1,617.70	3.29%
Crude Oil Futures	98.99	101.80	2.84%
Copper	342.70	343.00	0.09%
Sugar	23.30	23.29	-0.04%
HFRX Equal Wtd. Strat. Index	1,097.41	1,097.44	0.00%
HFRX Equity Hedge Index	997.97	1,000.17	0.22%
HFRX Equity Market Neutral	981.77	980.79	-0.10%
HFRX Event Driven	1,305.71	1,306.39	0.05%
HFRX Merger Arbitrage	1,485.91	1,486.74	0.06%
Dow Jones UBS Commodity Index	140.68	142.55	1.33%
FTSE/NAREIT All REIT	138.23	137.86	-0.27%

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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