MainStreet Advisors
Financial Market Update

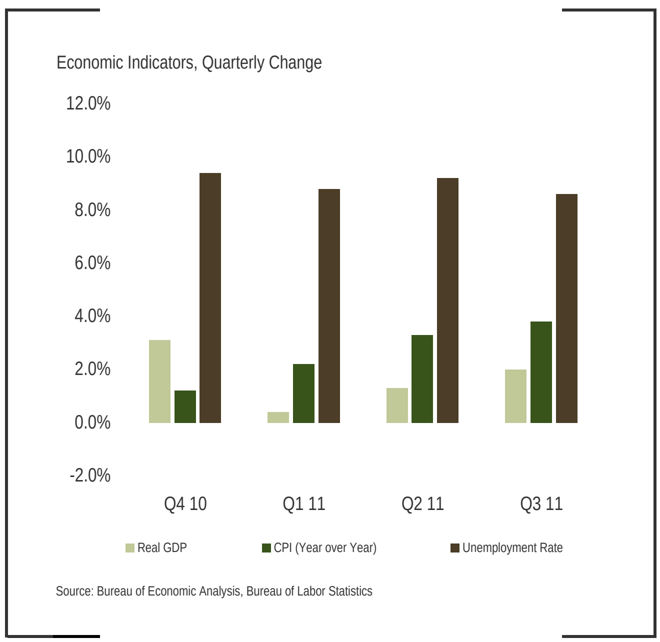
January 27, 2012

Economic Update

The FOMC met this week and announced it retained the current policy rate of 0.0 to 0.25%, but did make one key change to the language in the statement. Instead of stating that low rates will likely remain through mid-2013, the statement now reads “economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.” In addition to this the Fed released for the first time its projection for the fed funds rate and expected timing of the next move, as well as a longer run goal for inflation. FOMC members see the appropriate long-term fed funds rate as somewhere between 3.75 and 4.5%, and their inflation goal as measured by the PCE price index as 2.0%. The members’ anticipated timing of the next move was far less useful information, as expectations were fairly evenly distributed between 2012 and 2016. The Fed also lowered its forecast for GDP growth, inflation, and the unemployment rate.

The International Monetary Fund (IMF) downgraded its outlook for world economic growth on Tuesday, and warned the European crisis could plunge the globe into another recession. "The outlook for growth is mediocre, and it could be worse," said Olivier Blanchard, director of research at the IMF. They expect global growth to be only 3.3% as opposed to the 4.0% figure they released in September, and like us expect the euro area to fall into recession. The IMF lowered growth expectations for every country with the exception of the U.S., which they still believe will expand 1.8% this year. Later in the week the Department of Commerce reported fourth quarter GDP growth in the U.S. was 2.8%, accelerating from the previous quarter’s 1.8%.

Contrary to the recent trend of positive news on the housing market, the Census Bureau reported new home sales fell 2.2% in December. The 2011 total came in at 302,000, 6.2% less than 2010 and the lowest number since the government began tracking the data in 1963. Median new home prices were also disappointing, down 2.5% for the month and 12.8% for the year to $210,300.



Jan. 24th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.4%
Jan. 25th	MBA Purchase Applications Index, Wkly. Chg.	-5.0%
Jan. 25th	Pending Home Sales, Nov. Monthly Chg.	-3.5%
Jan. 25th	EIA Petroleum Status Report, Wkly. Chg.	3.6M Barrels
Jan. 26th	Durable Goods New Orders, Dec. Monthly Chg.	3.0%
Jan. 26th	Initial Jobless Claims (week ending 1/21)	377,000
Jan. 26th	New Home Sales, December	307,000
Jan. 26th	Leading Indicators, Dec. Monthly Chg.	0.4%
Jan. 26th	EIA Natural Gas Report, Wkly. Chg.	-192 bcf
Jan. 26th	GDP Price Index, Q4a Quarterly Change SAAR	0.4%
Jan. 27th	Consumer Sentiment Index, January	75.0

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.

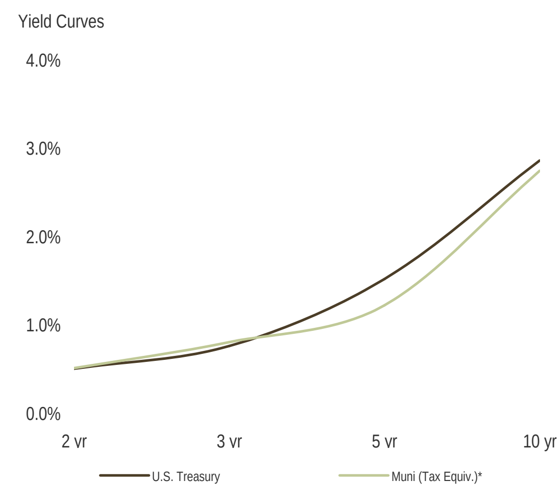
Bond Market Update

Optimism that Eurozone debt tensions are easing and continued belief in the sustainability of the U.S. economic recovery pushed investors to sell U.S. Treasuries early in the week. The U.S. 10-year bond traded well above a 2.05% yield before Federal Reserve Chairman Ben Bernanke's Wednesday news conference eventually sent 10-year yields below 1.95%. Bernanke announced intentions to keep short-term rates targeted near zero through the end of 2014 and added comments that implied possible future quantitative easing. The remarks suggesting weaker than expected U.S. economic growth and an additional large potential buyer in the fixed income markets brought a rush of bids to U.S. Treasuries that continued through week's end. Investors demand was heaviest in the 5-year bond sending the spread between the 5- and 10-year notes to its widest in 3 months at 1.21%.

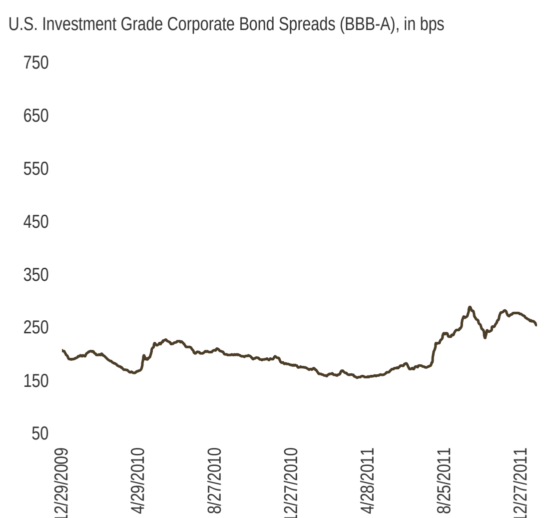
European fixed income markets continued to offer mixed news. A deal between Greece and its creditors which appeared imminent last Friday continued to remain unresolved through the week and heightened the chances of disorderly Greek default. The difficulty in obtaining a Greek debt resolution also prompted investors to sell Portuguese debt, which is widely viewed as the second weakest EU member after Greece. Investors were not completely risk averse, however, as Italian 10-year debt traded below 6% for the first time in 6 weeks and Spain's 10-year paper dipped below 5%.

Issue	1.20.12	1.27.12	Change
3 month T-Bill	0.05%	0.06%	0.01%
2-Year Treasury	0.26%	0.22%	-0.04%
5-Year Treasury	0.91%	0.75%	-0.16%
10-Year Treasury	2.05%	1.93%	-0.12%
30-Year Treasury	3.10%	3.07%	-0.03%

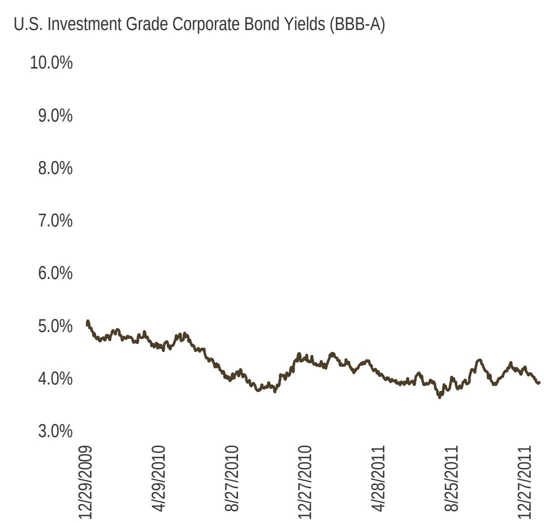
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



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

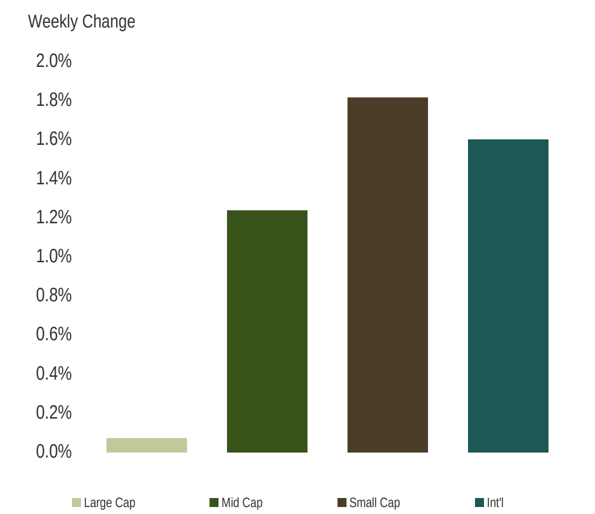
The stock market received a boost on Wednesday as the Federal Reserve announced their intent to keep rates low though 2014. The Fed announcement along with positive corporate earnings brought stocks to levels not seen since the financial collapse in 2008. Upon reaching new highs, the equity market reversed course after fourth quarter GDP was announced Friday before the open. The Dow Jones Industrial Average closed at 12,660.46, down 60 points for the week, or down 0.47%. The broader S&P 500 Index ended the week up 0.07% to close at 1,316.32, while the NASDAQ Composite finished higher by 30 points, or down 1.07% to close the week out at 2,816.55.

Caterpillar (CAT) announced earnings prior to the open on Thursday and had the largest gains for the day in the DJIA, rising 4% at the open and finishing the day up 2.09% to close at $111.31 per share. The company came in with earnings of $2.32 per share, well above the $1.75 per share that analysts had been forecasting. These positive earnings are partially attributable to a dramatic increase in heavy machinery due to a strong global demand for its earth moving equipment. More importantly, the company had forecasted profit for 2012 of $9.25 per share with revenue growth of 11% to 13%. For the week, CAT was up over 5% and finished Friday at $111.40.

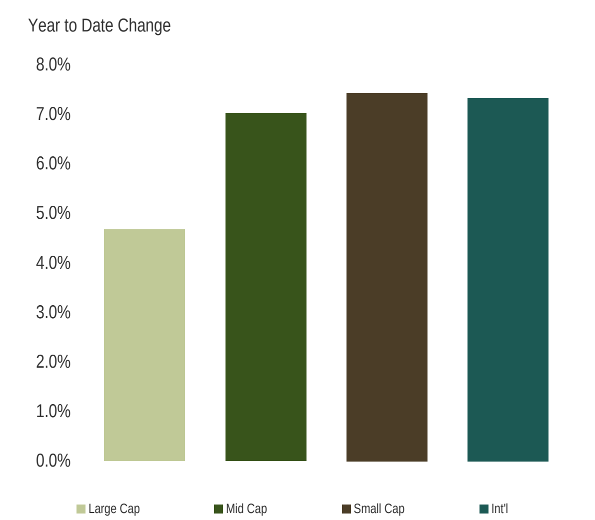
Apple (AAPL) was another large cap company that announced earnings this week at the close on Tuesday. The company posted record quarterly revenue of $46.33 billion and record quarterly net profit of $13.06 billion, or $13.87 per share. International sales account for over 50% of the quarter's earnings. Apple sold 37.04 million iPhones and 15.43 million iPads during the quarter, a growth rate of 128% and 111%, respectively, from the fourth quarter of 2010. Sales of Mac computers were also up over 26% from the prior quarter. Apple has surpassed Exxon Mobil as the largest company in the S&P 500 and closed Friday at 447.45, an increase of over 6% for the week.

Issue	1.20.12	1.27.12	Change
Dow Jones	12,720.48	12,660.46	-0.47%
S&P 500	1,315.38	1,316.32	0.07%
NASDAQ	2,786.70	2,816.55	1.07%
Russell 1000 Growth	609.13	616.03	1.13%
S&P MidCap 400	930.62	942.13	1.24%
Russell 2000	784.62	798.85	1.81%
MSCI EAFE	1,472.05	1,495.59	1.60%
MSCI Small Cap	991.38	1,014.98	2.05%

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

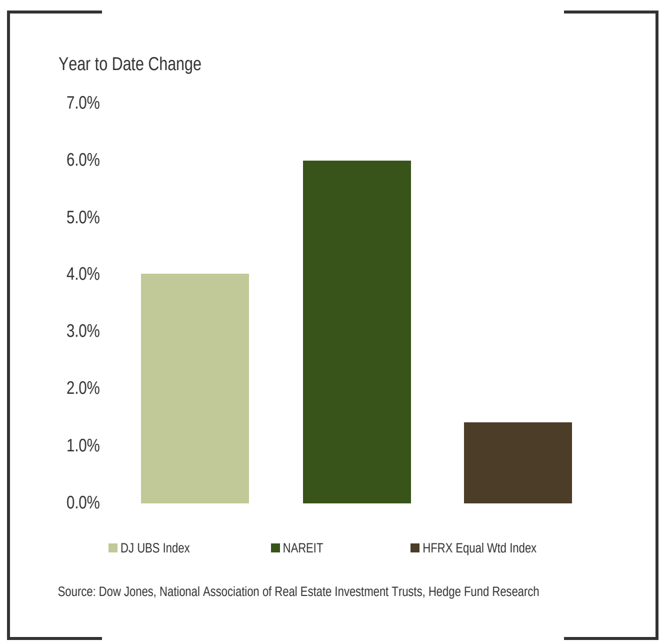
Crude oil ended the week at $99.61 a barrel, up 1.22%, thanks in large part to Iran's upcoming parliament vote Sunday on halting exports to the European Union as early as next week in advance of the EU's embargo of Iranian oil set for July, keeping supply uncertainty in focus. Gold settled at $1,740.80 an ounce, up 4.43%, after disappointing U.S. economic growth primarily from the softer-than-expected GDP reading boosted the precious metal's safe-haven appeal.

Despite less than stellar economic growth, the commercial real estate market continues its ongoing recovery. With interest rates remaining low and real estate investment trusts (REITs) valuations unchanged from a year ago, many believe REITs will continue to flourish under the current market conditions. Coming off a strong 2011, the only notable difference this year will be the resolution of the European debt crisis, which many believe will take place without any systematic default. In a report from the National Association of Real Estate Investment Trusts (NAREIT), absent an external macro shock " U.S. commercial real estate fundamentals are expected to strengthen in 2012, which combined with stable multiples/cap rate and an average 3.5% dividend yield for the group, should drive an 8-12% total return for REIT shares." For the week, the FTSE/NAREIT All REIT index was up 3.27%, closing at 146.52.

Hedge funds that loaded up on Greek bonds in December, betting on quick gains, are now frantically trying to sell these same holdings in fears of European policy makers forcing them to take a deep haircut on the debt. This will not be easy though, as hedge funds that had little-to-no problems purchasing these bonds are faced with a limited number of buyers. According to an article from the New York Times, under the proposed debt restructuring plan, hedge funds and other private sector creditors would have to incur losses of 50% or more, regardless of whether the bondholders agree. Therefore, the potential for legal challenges depends on whether the Greek government passes such legislation introducing so-called "collective action clauses" into its debt, where bond holders would be forced to accept restructurings by a majority vote.

Issue	Previous Week	Current[1]	Change
Gold	1,667.00	1,740.80	4.43%
Crude Oil Futures	98.41	99.61	1.22%
Copper	374.85	389.40	3.88%
Sugar	24.89	24.21	-2.73%
HFRX Equal Wtd. Strat. Index	1,110.94	1,112.88	0.17%
HFRX Equity Hedge Index	1,013.41	1,018.49	0.50%
HFRX Equity Market Neutral	989.41	983.60	-0.59%
HFRX Event Driven	1,333.70	1,341.04	0.55%
HFRX Merger Arbitrage	1,500.55	1,497.65	-0.19%
Dow Jones UBS Commodity Index	141.24	146.32	3.60%
FTSE/NAREIT All REIT	141.88	146.52	3.27%

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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