MainStreet Advisors Financial Market Update

August 10, 2012
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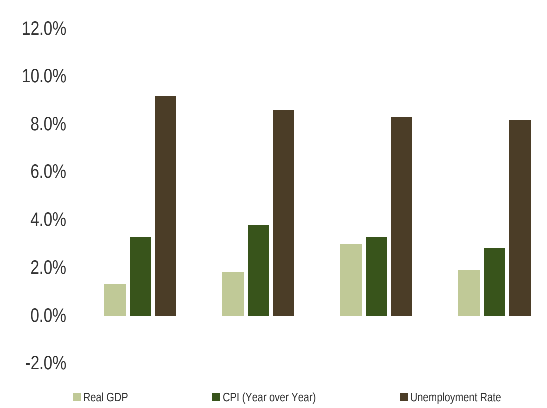
Economic Update

Lower oil prices and a dip in imports helped the U.S. trade balance shrink in the month of June. The deficit contracted a sizeable $5.1 billion to $42.9 billion, the smallest reading since December 2010. The narrowing in the gap was led by the non-petroleum goods component which shrank $3.1 billion, and the $2.3 billion reduction in the petroleum deficit added to the improvement. Imports fell 1.5% following a 0.8% decrease in May while exports advanced 0.9% after edging up 0.3%. The dip in non-petroleum imports may be indicative of weaker demand, but overall these numbers should help boost revisions to second quarter GDP. Meanwhile China's General Administration of Customs reported that exports from the world's second largest economy grew only 1% in July from the previous year. It was a significant slowdown from the 11.3% year-over-year growth rate in June and reduced the country's trade surplus 16.8% to $25.2 billion for the month. It is evident that China is getting hurt far more than the U.S. by Europe's weak economy.

There was further evidence of easing inflation pressures as import prices continued their retreat falling 0.6% in July. It was the fourth straight month of declines moving the year-over-year figure to minus 3.2% – the largest drop in nearly three years. Export prices increased 0.5% though as a 6.4% surge in agriculture products caused by the drought here in the U.S. helped raise the overall index 0.5%.

Initial jobless claims continued their downward trend falling 6,000 to 361,000 for the week ended August 4. The four-week average moved up 2,250 to 368,250 but is poised to decline next week as the 388,000 figure from the July 14 week is dropped from the calculation. Earlier in the week the Labor Department reported job openings rose to a seasonally adjusted 3.8 million in June, up from 3.7 million the previous month. This was the highest reading since July 2008 and reinforces the notion that the job market is steadily improving.

Economic Indicators, Quarterly Change



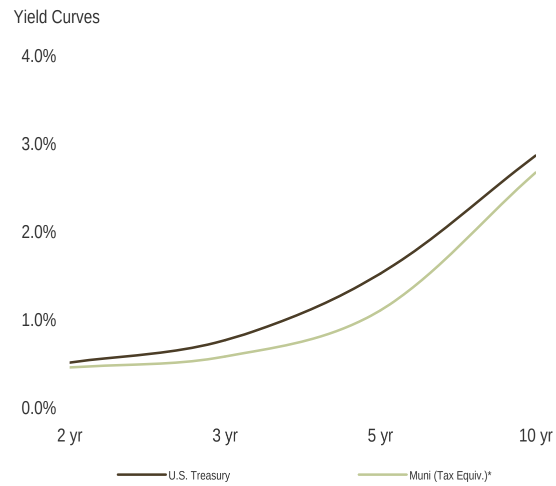
Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Aug. 7th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.0%
Aug. 7th	Consumer Credit, June Monthly Change	6.5B
Aug. 8th	MBA Purchase Applications Index, Wkly. Chg.	-1.8%
Aug. 8th	EIA Petroleum Status Report, Wkly. Chg.	-3.7M Barrels
Aug. 9th	International Trade Balance Level, June	-42.9B
Aug. 9th	Initial Jobless Claims (week ending 8/4)	361,000
Aug. 9th	Wholesale Inventories, June Monthly Chg.	-0.2%
Aug. 9th	EIA Natural Gas Report, Wkly. Chg.	24 bcf
Aug. 10th	Import Prices, July Monthly Chg.	-0.6%
Aug. 10th	Export Prices, July Monthly Chg.	0.5%

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

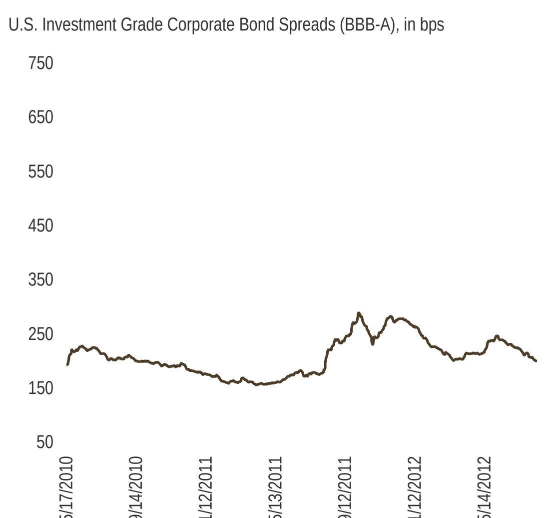
For the third straight week, the bond market closed lower driven by optimism that the European Central Bank (ECB) and the Federal Reserve might provide new stimulus to support global growth. The sell-off sent the yield on the ten-year note above 1.70% on Thursday, the highest level since May 30 and up from an intraday record low of 1.379% set on July 25. In a sign that inflation expectations might be mounting, the spread, or difference in yields, between the ten-year note and similar maturity TIPS climbed to 2.27%, topping the long-term average of 2.11%. Meanwhile, a recent report by Merrill Lynch notes that four municipalities in California have recently declared or are considering declaring bankruptcy. Although a slew of additional bankruptcies appear unlikely, some caution is warranted in light of ongoing weakness in the economy and the continued weakness in real estate in much of the country. However, the report suggests municipal bankruptcies will not become widespread, and the four cities in California represent only a small fraction of the 90,000 municipalities across the country. Most municipalities are now more inclined and better equipped to accept the austerity measures needed to keep current on their bond obligations. For example, voters in San Jose and San Diego approved measures to reform public pension plans, and Wisconsin supported Governor Walker in a recall election, affirming his bid to strip public workers of their collective bargaining rights.



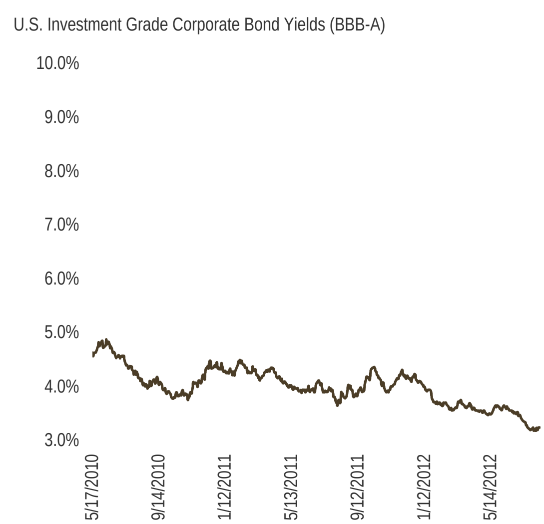
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	8.3.12	8.10.12	Change
3 month T-Bill	0.09%	0.10%	0.01%
2-Year Treasury	0.24%	0.27%	0.03%
5-Year Treasury	0.67%	0.71%	0.04%
10-Year Treasury	1.60%	1.65%	0.05%
30-Year Treasury	2.65%	2.74%	0.09%

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



Source: Merrill Lynch



Source: Merrill Lynch

Stock Market Update

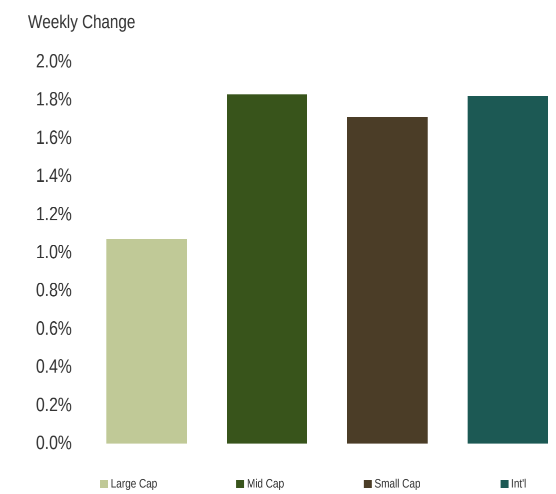
Markets were positive across the board this week as the S&P 500 Index crossed the 1400 level and the NASDAQ Index rose above 3000, both for the first time since May. It was the fifth week of gains for the Dow and the S&P 500 Index. The rally from last Friday's job report continued on Monday. The lack of any headline news out of Europe also kept investors interested in buying equities. While markets were down most of Friday due to weak Chinese trade data, all three major indices ended the day in positive territory. For the week, the Dow Jones Industrial Average increased 0.9%, closing out at 13207.95. The S&P 500 Index finished at 1405.87, up 1.1%. The NASDAQ Composite Index was the strongest domestic index, ending the week at 3020.86, 1.8% higher than last Friday.

Chinese economic data reported this week included inflation, trade deficit and industrial production. The consumer price index rose 1.8% in July from one year ago, the lowest increase since January 2010, and down from June's 2.2% increase. The trade deficit narrowed as both imports and exports fell below expectations. Factory production increased 9.2% in July from a year earlier, a slowdown from the 9.5% reported in June and the slowest since April 2009. Japanese and Chinese stock market indices were up 3.9% and 1.7%, respectively, for the five-day trading period. European stocks finished up 1.6%.

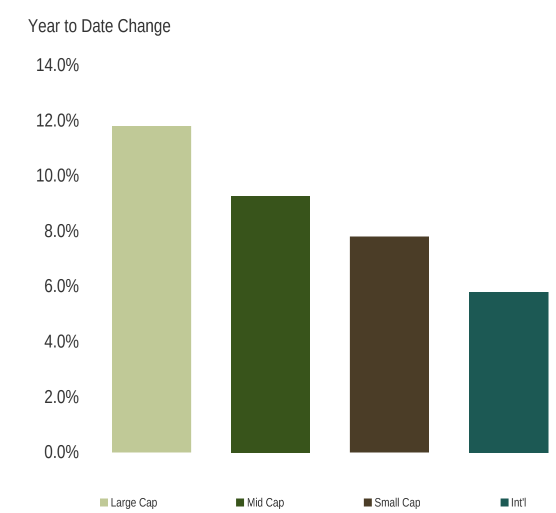
Companies reporting earnings this week included Disney and Express Scripts. Express Scripts benefited from generic drug conversions as revenue and margins came in ahead of target. For Disney, the success of The Avengers movie, higher profits in the parks division and double digit increase in advertising growth and ratings at ESPN fueled strong earnings for the company's third fiscal quarter. In other corporate news, National Oilwell Varco announced plans to acquire Robbins & Myers, a maker of specialized equipment used inside oil and natural gas wells and rigs. This was the company's sixth acquisition this year.

Issue	8.3.12	8.10.12	Change
Dow Jones	13,096.17	13,207.95	0.85%
S&P 500	1,390.99	1,405.87	1.07%
NASDAQ	2,967.90	3,020.86	1.78%
Russell 1000 Growth	647.53	653.25	0.88%
S&P MidCap 400	944.68	961.95	1.83%
Russell 2000	788.16	801.62	1.71%
MSCI EAFE	1,447.88	1,474.23	1.82%
MSCI Small Cap	944.95	979.28	2.30%

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, Wolfe Trahan.



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



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

Alternative Investments Market Update

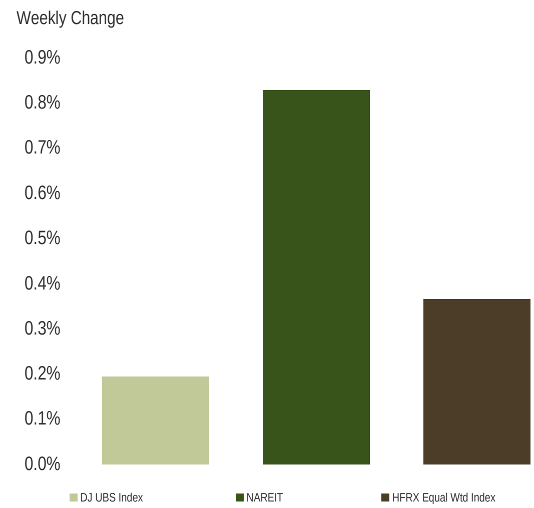
WTI oil prices rose for the second consecutive week and closed at $93.37 a barrel with investors focusing on several potential tail winds for increasing oil prices. Principal among the positives is the continued expectation of global central bank stimulus measures that promise to increase global oil demand. Adding support to prices is the continued hostilities in Syria and heightened tensions between Israel and Iran which raise uncertainty in the region and threaten global oil supply. Despite the fundamental positives, oil did close off the highs of the week as data out of China showed the world's second largest oil consumer imported much less crude oil over the last month. Coupled with the disappointing Chinese data was a report from International Energy Agency which trimmed their global demand outlook for 2013.

Gold gained this week after disappointing manufacturing numbers in China, indicating there may be more quantitative easing there. Gold bullion rose after Chinese data showed July exports rose just 1% from a year ago and that new loans are now at a 10-month low, adding to data earlier in the week showing factory output rising at its lowest pace in three years. Worries about food inflation also boosted gold this week as the precious metal rose 1.04%, or $16.70, to settle at $1,622.60 an ounce.

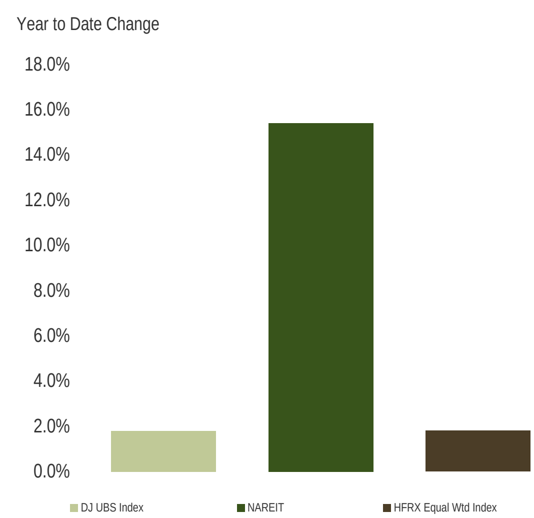
With the worst drought in nearly a half century devastating crops throughout the Midwest, the government on Friday slashed its estimate of the annual corn yield by roughly 17% in the last month to the lowest level since 1995. According to the New York Times, many analysts believe the crop will fail to replenish already-thinned commodity stockpiles, thus translating into higher prices for goods such as processed food, animal feed and ethanol. The Agriculture Department report released on Friday forecasted the corn yield to be 123.4 bushels an acre, the lowest in 17 years. Corn futures had climbed this week on the widespread expectation of this weak report on top of falling demand for the expensive crop; it is currently trading around $8.12 a bushel, up from about $5.20 a bushel in June.

Issue	Previous Week	Current[1]	Change
Gold	1,605.90	1,622.60	1.04%
Crude Oil Futures	91.20	93.37	2.38%
Copper	336.25	340.40	1.23%
Sugar	22.00	20.74	-5.73%
HFRX Equal Wtd. Strat. Index	1,113.08	1,117.14	0.36%
HFRX Equity Hedge Index	1,016.05	1,026.05	0.98%
HFRX Equity Market Neutral	928.94	933.10	0.45%
HFRX Event Driven	1,347.41	1,356.04	0.64%
HFRX Merger Arbitrage	1,500.87	1,504.88	0.27%
Dow Jones UBS Commodity Index	142.92	143.20	0.19%
FTSE/NAREIT All REIT	158.21	159.52	0.83%

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

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