MainStreet Advisors
Financial Market Update

Economic Update

July retail sales came in at a strong 0.8% gain this week after a disappointing June, showing the largest jump since February. Back-to-school shopping boosted the clothing component of the figure, and all other contributing factors were positive for the month. The release beat analyst estimates significantly, but did follow two dismal months of previous retail sales reports. While one month of positive data does not make a trend, this could be an indicator that consumer spending is at an inflection point. As consumer spending is a major part of GDP, further improvement in this number could boost the economy in a significant way.

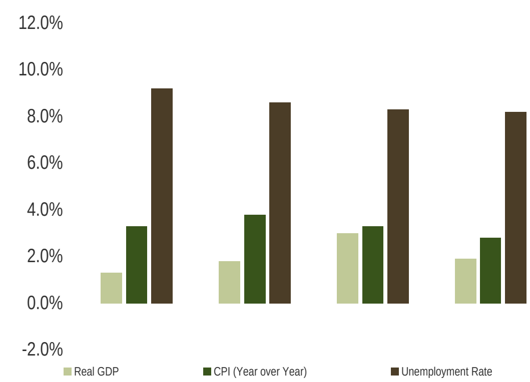
Inflation remained level in July as CPI numbers were flat. Energy prices fell slightly but gasoline was up 0.3% while apparel, travel, and medical components fell. August looks to bring significant rises in energy and food costs, likely pushing CPI figures into positive territory. The Fed may consider this reason for potential easing, but rising food and energy prices in the coming months might make up for the soft CPI numbers this summer. Although food price increases from the drought have not been seen in stores yet, one-year inflation expectations are rising significantly.

Industrial production beat estimates to climb 0.6% in July. Manufacturing was strong, supported mostly by motor vehicle production gaining 3.3%. Mining was also a significant contributor for the month. Despite earlier weakness in new orders, industrial production has shown continued strength in the last two months, curbing some pessimistic sentiments about the manufacturing sector.

Economic news across the pond was not as positive this week as second quarter Eurozone GDP dropped by 0.2%. There were some bright spots; Germany and France beat expectations for GDP growth, with Germany showing +0.3% and France unchanged (consensus predictions were +0.2% and -0.1%, respectively). Analysts estimate that Germany's growth will not be sustainable in the coming quarters because of falling new orders reports. Regardless, there is no doubt that Germany remains a strong point in the Eurozone economic system.

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.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

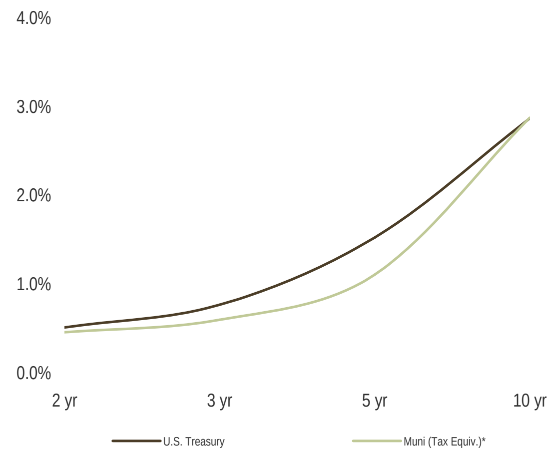
Aug. 14th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.3%
Aug. 14th	Producer Price Index, July Monthly Chg.	0.3%
Aug. 14th	Retail Sales, July Monthly Chg.	0.8%
Aug. 14th	Business Inventories, June Monthly Chg.	0.1%
Aug. 15th	MBA Purchase Applications Index, Wkly. Chg.	-4.5%
Aug. 15th	Consumer Price Index, July Monthly Chg.	0.0%
Aug. 15th	Empire State Mfg Survey, August	-5.85
Aug. 15th	Industrial Production, July Monthly Chg.	0.6%
Aug. 15th	Housing Market Index, August	37.0
Aug. 15th	EIA Petroleum Status Report, Wkly. Chg.	-3.7M Barrels
Aug. 16th	Housing Starts, July	746,000
Aug. 16th	Initial Jobless Claims (week ending 8/11)	366,000
Aug. 16th	Philidelphia Fed Survey, August	-7.1
Aug. 16th	EIA Natural Gas Report, Wkly. Chg.	20 bcf
Aug. 17th	Consumer Sentiment Index, August	73.6
Aug. 17th	Leading Indicators, July Monthly Chg.	0.4%

Bond Market Update

The bond market closed lower for the fourth straight week, the longest streak since December 2010, as U.S. economic reports showed greater than anticipated growth, driving demand for safe-haven assets lower. Looking ahead, many strategists feel the actions of the European Central Bank (ECB) will likely influence the direction of interest rates in the short-term. ECB president Mario Draghi said earlier this month that the central bank is devising a stimulus plan including the option to purchase sovereign bonds in Italy and Spain. Speculation has risen that Mr. Draghi could release details of the plan by next month after garnering support from German Chancellor Angela Merkel for ECB intervention. Merkel said Germany is completely "in line" with the ECB's approach to supporting the euro.

Meanwhile, sales of high-yield bonds in the U.S. have soared, as companies continue to take advantage of near record low interest rates and demand remains robust with investments pouring into mutual funds in this sector of the market. Despite this, many market participants now feel investors should focus on other areas of the bond market going forward given the considerable rally during the first seven months of the year combined with historically low absolute yields.

Yield Curves

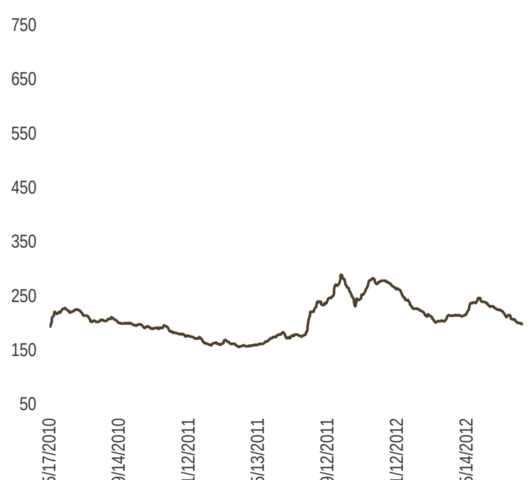


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	8.10.12	8.17.12	Change
3 month T-Bill	0.10%	0.09%	-0.01%
2-Year Treasury	0.27%	0.29%	0.02%
5-Year Treasury	0.71%	0.81%	0.10%
10-Year Treasury	1.65%	1.81%	0.16%
30-Year Treasury	2.74%	2.93%	0.19%

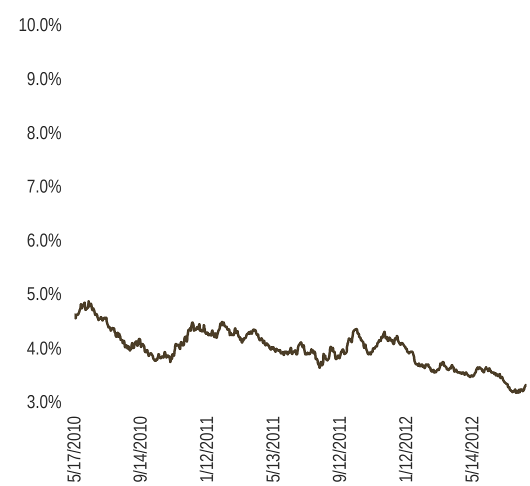
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

U.S. Investment Grade Corporate Bond Spreads (BBB-A), in bps



Source: Merrill Lynch

U.S. Investment Grade Corporate Bond Yields (BBB-A)



Source: Merrill Lynch

Stock Market Update

Domestic and international equity markets continued to move higher this past week in response to several positive domestic economic data reports. Retail sales, building permits, consumer confidence, and the Conference Board's Leading Indicator Index all came in ahead of expectations. These signs of recovery also reassured global investors and drove weekly gains for most European and Asian markets. Domestic markets were slightly positive on Friday, with all three major indices adding to their weekly gains. The Dow Jones Industrial Average closed at 13,275.12, up 67 points for the week, or up 0.51%. The broader S&P 500 Index ended the week up 0.87% to close at 1,418.16, while the NASDAQ Composite finished higher by 56 points, or up 1.84% to close the week out at 3,076.59.

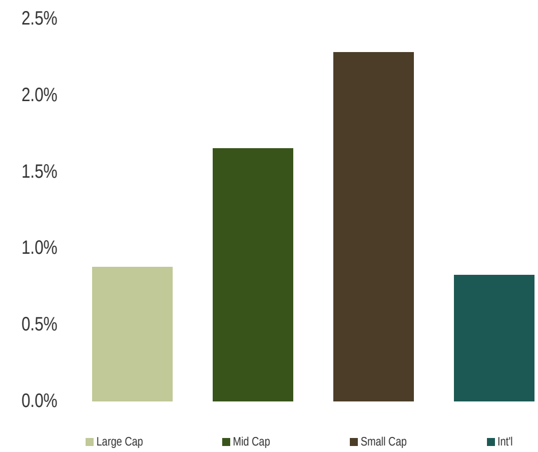
Despite rising on Friday, most Chinese stocks declined for the week as the Shanghai Composite fell 2.5% for the week after several banks cut forecasts for China's economic growth. The index has fallen almost 14% from this year's high in early March amid concern the economic slowdown is worsening. European stocks rose for the week as Spain's 10-year bond yield fell to a six-week low of 6.44% amid easing concern over the debt crisis. The MSCI Emerging Markets Index declined 0.8% for the week as disappointing revenue growth and lower forecasts for economic growth outweighed signs that the U.S. economy is improving.

Domestically, as earnings season winds down, Q2 results offers some mixed signals. Earnings reports have generally beaten reduced expectations. Of the 453 S&P 500 companies to report so far, over 64% have beaten estimates. However, earnings estimates for the remainder of the year have continued to drift lower. For the full year, earnings for the S&P 500 are expected to increase only 5.6% over 2011. Shares of Cisco Systems jumped after reporting results that beat estimates, raising its dividend, and providing positive guidance. Apple shares reached new highs on Friday on expectations for new iPhone and iPad products.

Issue	8.10.12	8.17.12	Change
Dow Jones	13,207.95	13,275.20	0.51%
S&P 500	1,405.87	1,418.16	0.87%
NASDAQ	3,020.86	3,076.59	1.84%
Russell 1000 Growth	653.25	662.55	1.42%
S&P MidCap 400	961.95	977.85	1.65%
Russell 2000	801.62	819.89	2.28%
MSCI EAFE	1,474.23	1,486.39	0.82%
MSCI Small Cap	979.28	975.82	1.09%

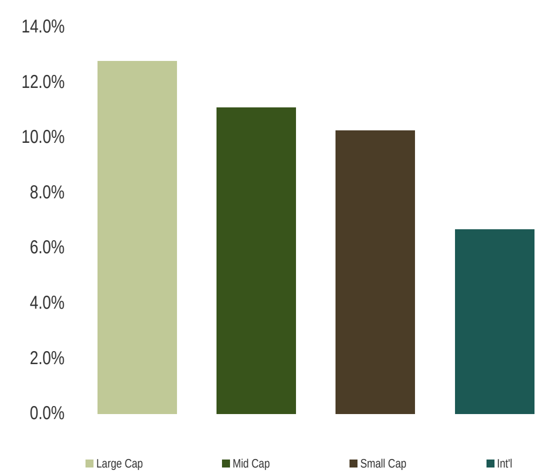
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Weekly Change



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

Year to Date Change



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

Alternative Investments Market Update

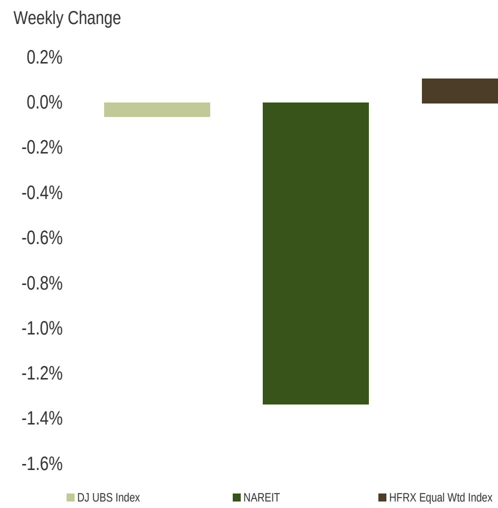
Gold has been struck by currency markets and Friday was no exception. The euro was a bit weaker as traders took in comments from German Chancellor Angela Merkel, in which she voiced support for the single currency. Many analysts believe volatility will continue to be the theme for the precious metal until some sort of real stimulus is put in place. The metal has managed to stay afloat despite a report this week from the World Gold Council showing a 7% drop in demand in Q2 on lower Indian and Chinese demand. For the week, the metal slipped 0.28%, settling at $1,618 an ounce.

Crude oil gained 2.93% this week, marking its third straight weekly gain, on reports that the U.S. economy is recovering, coupled with the increased tension in the Middle East. Crude rose as confidence among U.S. consumers improved and the index of U.S. leading economic indicators climbed higher than forecasted. Crude oil prices have rallied nearly 9% this month as Israel implements civil-defense measures and security concern grows in Syria and Lebanon. Also, according to a report from the New York Times, the U.S. has been increasing its dependence on oil from Saudi Arabia, raising its imports from the kingdom by more than 20% this year, despite growing fears of military conflict in the region. This reversal is driven in part by the battle over Iran’s nuclear program. The United States tightened sanctions that hampered Iran’s ability to sell crude and Saudi Arabia agreed to increase production to help guarantee that the price did not shoot up. While prices have remained relatively stable, analysts believe the U.S. is left increasingly vulnerable to a region in turmoil.

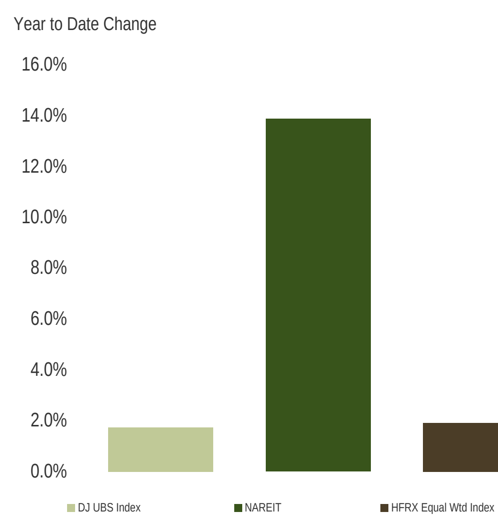
Hedge funds are beginning to position new bets on a potential spike in oil prices tied to the possibility of attacks on Iran. According to Reuters, signs that Israel is losing patience with efforts to curtail Iran's nuclear program, as well as the intensifying conflict in Syria, are giving funds new reason to bet on oil despite a lack of evidence that fundamentals are improving. Numbers show that activity is muted so far by the summer calm, but could pick up in September.

Issue	Previous Week	Current[1]	Change
Gold	1,622.60	1,618.00	-0.28%
Crude Oil Futures	93.37	96.11	2.93%
Copper	340.40	342.45	0.60%
Sugar	20.74	20.18	-2.70%
HFRX Equal Wtd. Strat. Index	1,117.14	1,118.34	0.11%
HFRX Equity Hedge Index	1,026.05	1,028.50	0.24%
HFRX Equity Market Neutral	933.10	932.57	-0.06%
HFRX Event Driven	1,356.04	1,357.14	0.08%
HFRX Merger Arbitrage	1,504.88	1,505.64	0.05%
Dow Jones UBS Commodity Index	143.20	143.11	-0.06%
FTSE/NAREIT All REIT	159.52	157.39	-1.34%

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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