

MainStreet Advisors Financial Market Update

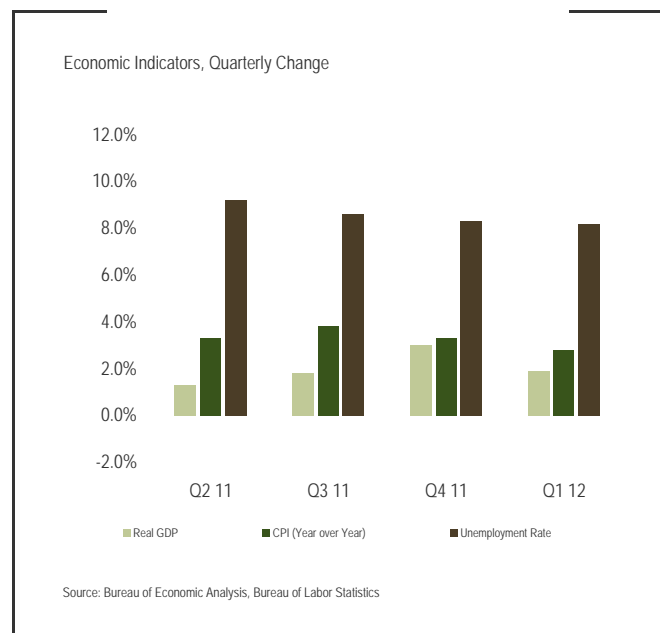
August 24, 2012
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Economic Update

The Fed minutes released this week from the July 21-August 1 meeting included language that indicated the Fed is preparing to launch a new round of stimulus. "Many members judged that additional monetary accommodation would likely be warranted fairly soon unless incoming information pointed to a substantial and sustainable strengthening in the pace of the economic recovery." These beliefs were not unanimous as "One member judged that additional accommodation would likely not be effective in improving the economic outlook and viewed the potential costs associated with such action as unacceptably high." The bottom line is the Fed has telegraphed that further action in the coming months is likely, probably post-election to avoid making it look political.

Data released this week showed that activity in the housing market rebounded in July. Existing home sales were up 2.3% during the month to an annual rate of 4.47 million after falling 5.4% in June. This is 10.4% higher than in July of last year and indicates that the housing market is recovering. Median prices are up as well, rising 9.4% over the 12-month period to 187,300 as fewer sales were made in the lower price range. The limited supply of entry-level homes may be holding back activity as there is not much inventory in the first-time home buyers' budget and investors with all-cash offers are eating into much of what little there is. New home sales also rebounded 3.6% to an annual rate of 372,000 after falling in June. Supply is tight at just 4.6 months as compared to 6.7 months this time last year, and with increasing demand this should lead to more construction activity in the coming months.

Durable goods orders jumped 4.2% in July as strong aircraft orders boosted the headline number for the second month in a row. Stripping out civilian aircraft orders – which rocketed up 78% – and other transportation equipment, orders fell 0.4% indicating that there is some softness in other areas of manufacturing. Manufacturing data has been tepid over the past couple months, and overall this report is fairly neutral as well.



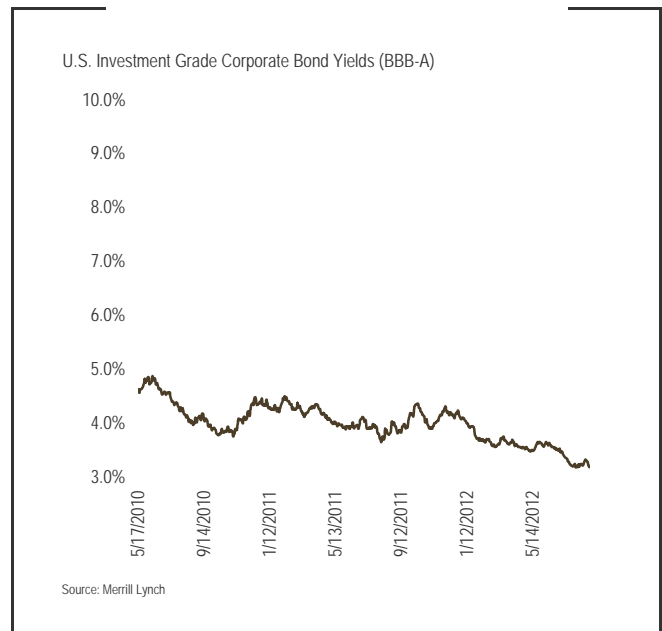
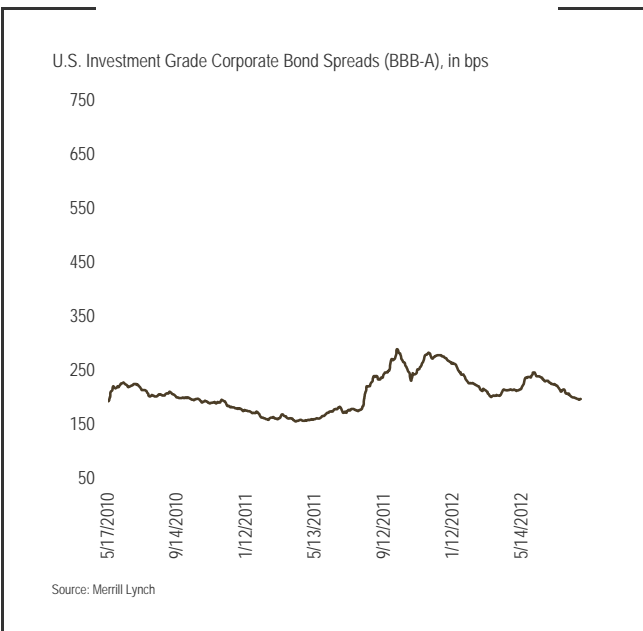
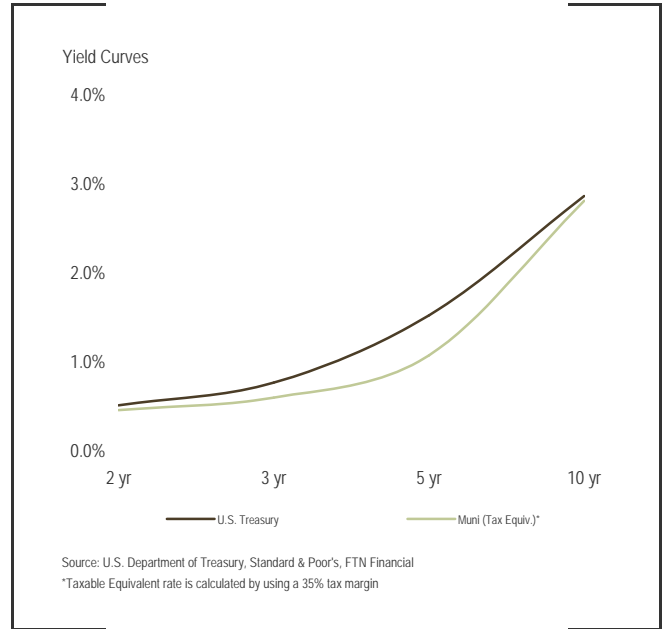
Aug. 21 st	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.5%
Aug. 22 nd	MBA Purchase Applications Index, Wkly. Chg.	-7.4%
Aug. 22 nd	Existing Home Sales, July SAAR	4.47M
Aug. 22 nd	EIA Petroleum Status Report, Wkly. Chg.	-5.4M Barrels
Aug. 23 rd	Initial Jobless Claims (week ending 8/18)	372,000
Aug. 23 rd	New Home Sales, July	372,000
Aug. 23 rd	EIA Natural Gas Report, Wkly. Chg.	47 bcf
Aug. 24 th	Durable Goods New Orders, July Monthly Chg.	4.2%

Bond Market Update

After four straight weeks of losses, U.S. Treasuries closed higher driven primarily by speculation the Federal Reserve will increase its efforts to spur economic growth by means of its bond buying program. Fed policy makers said additional stimulus would likely be needed soon unless the economy shows signs of a durable increase, according to meeting minutes released on Wednesday. Demand for safe-haven government debt also grew amid concern ECB president Draghi may not announce a definitive European bond-purchase program at the bank's September 6 meeting. Despite this week's gains, returns for U.S. Treasuries remain negative for the month, with some strategists suggesting market participant's assessment of risk in the markets may have taken an optimistic turn. However, few investors are willing to declare the Treasury market's long bull run over, viewing higher yields as an attractive level to increase positions. These bond bulls say European leaders have a record of disappointing in the three years since the sovereign debt crisis began, and will do so again causing another flight-to-safety trade. Still, bond market trading has been seasonally light, suggesting price movements after Labor Day, when traders return, will provide a more accurate read on investor sentiment. Until then, expect nothing more than modest moves in the bond market unless we see a policy surprise from Europe or a sudden shift in the tone of U.S. economic data.

Issue	8.17.12	8.24.12	Change
3 month T-Bill	0.09%	0.10%	0.01%
2-Year Treasury	0.29%	0.28%	-0.01%
5-Year Treasury	0.81%	0.72%	-0.09%
10-Year Treasury	1.81%	1.68%	-0.13%
30-Year Treasury	2.93%	2.79%	-0.14%

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



Stock Market Update

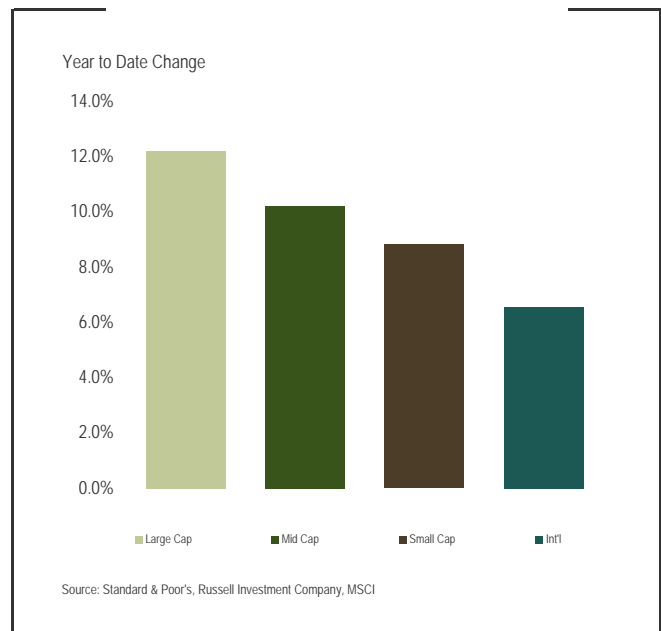
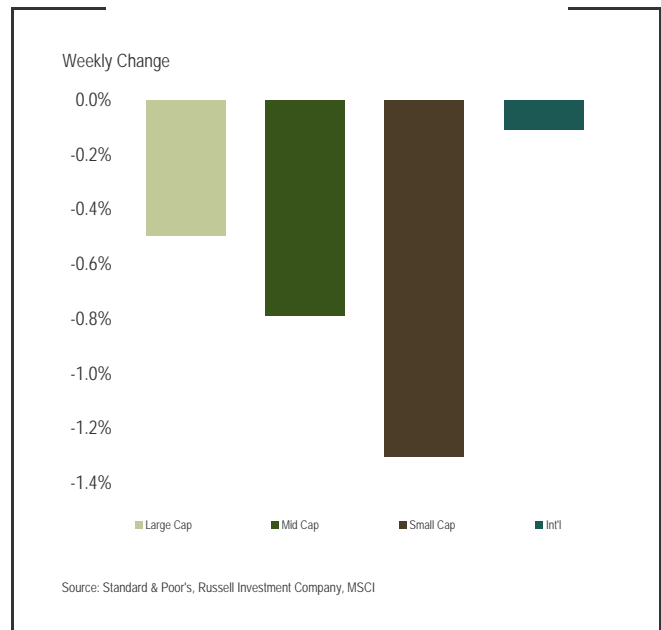
The equity markets were down this past week on very light volume, which is typical of August, as investors were taking a vacation from the markets and sitting on the sidelines. Concerns remain over the health of the global economy as investors await the economic symposium held next week in Jackson Hole, Wyoming. The Dow Jones Industrial Average closed at 13,157.97, down 117 points for the week, or down 0.88%. The broader S&P 500 Index ended the week down 0.50% to close at 1,411.13, while the NASDAQ Composite finished lower by 7 points, or down 0.22% to close the week out at 3,069.79.

The European markets ended the week slightly negative after posting positive returns over the past 11 weeks. The European Central Bank continues to develop a plan looking to set band targets on sovereign debt. ECB president, Mario Draghi, is set to hold a news conference on September 6th with no indication that a plan will be set at that time. The markets did get a boost on Friday as Bernanke made mention of additional stimulus and the ability to boost the economy if needed.

PayPal, an online processing unit of EBay Inc. (EBAY) announced plans that it will expand its services to include brick-and-mortar stores through an agreement with Discover Financial (DFS). Beginning next year PayPal will issue cards to more than 50 Million users and will have the ability to use their cards at over 7 Million locations in which Discover currently has a presence. The news sent shares of both companies higher with EBAY ending the week up 0.43% and Discover Financial ending the week higher by 2.10%.

Issue	8.17.12	8.24.12	Change
Dow Jones	13,275.20	13,157.97	-0.88%
S&P 500	1,418.16	1,411.13	-0.50%
NASDAQ	3,076.59	3,069.79	-0.22%
Russell 1000 Growth	662.55	659.59	-0.45%
S&P MidCap 400	977.85	970.16	-0.79%
Russell 2000	819.89	809.19	-1.31%
MSCI EAFE	1,486.39	1,484.79	-0.11%
MSCI Small Cap	975.82	974.09	0.13%

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.



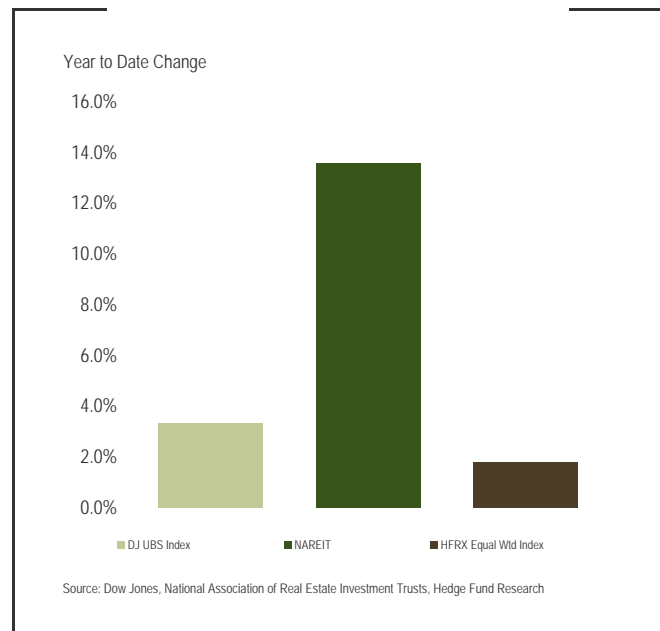
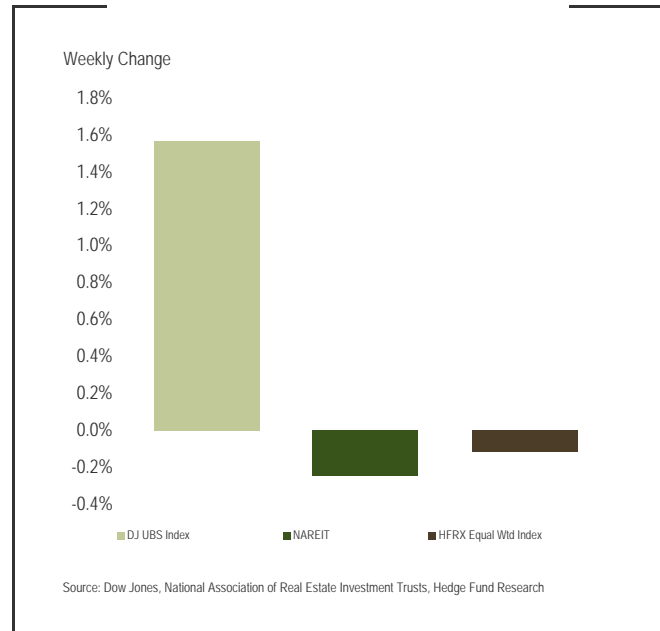
Alternative Investments Market Update

Gold hit its highest level in more than four months this week as speculation around a third liquidity injection from the Federal Reserve intensified. For the week the metal was up 3.33%, or \$53.90, closing at \$1,671.91 an ounce, its highest settlement price since it ended at \$1,680.60 an ounce on April 12. On Thursday, the precious metal gained nearly 2% to settle at a four-month high on increased hopes of further monetary stimulus following the Federal Reserve Policy meeting and some weak manufacturing data from China. The metal has surged to record highs on past monetary-easing programs, which triggered fears of inflation and gilded the allure of hard assets like precious metals. Gold prices tend to rise in anticipation of higher inflation, as investors see the precious metal as a safe haven. The metal usually keeps its value relative to other assets during times of inflation. Some analysts believe that the latest Federal Open Market Committee's minutes renewed the market's fears as the minutes appeared to signal changing priorities at the central bank, with economic growth possibly superseding the Fed's mandate to keep inflation in check. Elsewhere, record-high prices are set to pummel gold demand in India even as the world's largest gold buyer nears the traditionally busy festival and wedding season, analysts said. According to the Wall Street Journal, gold prices in India hit a record 31,000 rupees per 10 grams.

Crude oil ended the week slightly weaker, slipping 0.22%, to close at \$95.90, on a cautious outlook on whether a storm will pose a threat to key U.S. Gulf Coast oil production and refining operations. Traders showed fear over forecasts of Tropical Storm Isaac strengthening into a hurricane. The potential for at least a temporary disruption of output comes as tightening oil inventories in the world's biggest oil consumer have pushed prices to their highest level since early May. Oil was also hit this week from the strength in the dollar, which usually discourages investors from using other currencies to stake out positions in dollar-based commodities, like crude. On top of all this, the heightened tensions in the Middle East also suggested betting against a steep price fall in the near term.

Issue	Previous Week	Current ¹	Change
Gold	1,618.00	1,671.90	3.33%
Crude Oil Futures	96.11	95.90	-0.22%
Copper	342.45	348.90	1.88%
Sugar	20.18	19.58	-2.97%
HFRX Equal Wtd. Strat. Index	1,118.34	1,117.08	-0.11%
HFRX Equity Hedge Index	1,028.50	1,026.02	-0.24%
HFRX Equity Market Neutral	932.57	930.21	-0.25%
HFRX Event Driven	1,357.14	1,358.87	0.13%
HFRX Merger Arbitrage	1,505.64	1,506.76	0.07%
Dow Jones UBS Commodity Index	143.11	145.36	1.57%
FTSE/NAREIT All REIT	157.39	157.01	-0.24%

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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