MainStreet Advisors
Financial Market Update

August 3, 2012

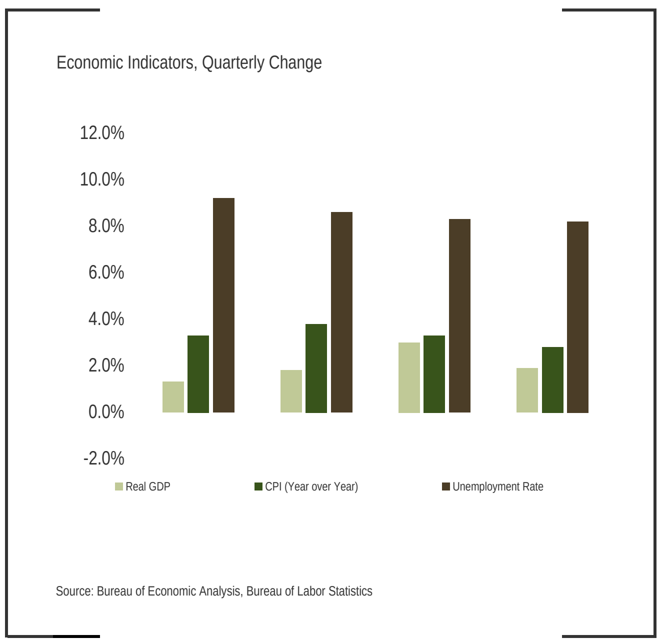
Economic Update

The Fed disappointed some investors who were expecting some form of "QE3" when they stood pat on policy at their meeting this week, but they did open the door a little more for further stimulus by saying they "will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed to promote a stronger economic recovery". This is a strong indication we may see some form of action at the next meeting if economic data is weak.

The recent volatility in initial jobless claims subsided for the week ended July 28, as the number of Americans filing for first-time unemployment benefits only rose 8,000 to 365,000. This helped push the four-week average down to a four-month low of 365,500 indicating labor market conditions are improving. This was echoed by the monthly employment situation report which showed 163,000 jobs were added to the economy in July. The market had only been expecting 100,000 so the reported number was a respectable surprise to the upside. The private sector continued to carry the load adding 172,000 to the payrolls while government jobs were cut by 9,000. The less reliable household survey showed a drop in the number of employed, contrasting the establishment survey and causing the unemployment rate to tick up one-tenth of a point to 8.3%. Overall the report was a positive, though, and this may end up being an inflection point towards improved economic data.

The manufacturing side of the U.S. economy contracted for the second month in a row, albeit at a slower rate. The Institute for Supply Managements manufacturing PMI came in at 49.8 in July, slightly better than June's reading of 49.7. Production and employment are still growing but this is unlikely to continue if new orders, which were at 48.0, remain below 50. With decreasing new orders manufacturers' inventories and order back logs have been shrinking. The much larger service side of the economy continues to chug along, growing for the 31st consecutive month. The non-manufacturing index rose a half-point to 52.6 with encouraging numbers in the new orders and business activity components that showed accelerating growth.

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.



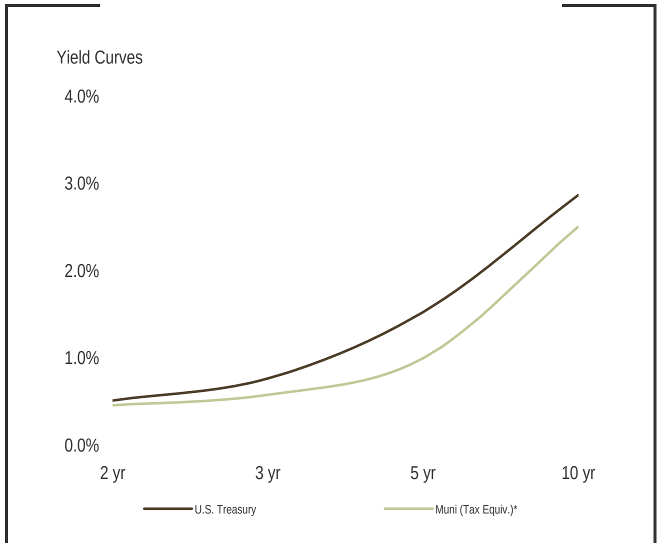
Jul. 31st	ICSC-Goldman Same Store Sales, Wkly. Chg.	-1.7%
Jul. 31st	Personal Income, June Monthly Chg.	0.5%
Jul. 31st	Consumer Spending, June Monthly Chg.	0.0%
Jul. 31st	Core PCE Price Index, June Monthly Chg.	0.2%
Jul. 31st	Employment Cost Index, Q2 Quarterly Change	0.5%
Jul. 31st	S&P/Case-Shiller 20-city Index, May Monthly Chg.	0.9%
Jul. 31st	Chicago PMI Business Barometer Index, July	53.7
Jul. 31st	Consumer Confidence Index, July	65.9
Jul. 31st	State Street Investor Confidence Index, July	94
Aug. 1st	ISM Mfg. Index - Level, July	49.8
Aug. 1st	Construction Spending, June Monthly Chg.	0.4%
Aug. 2nd	Initial Jobless Claims (week ending 7/28)	365,000
Aug. 2nd	Factory Orders, June Monthly Chg.	-0.5%
Aug. 3rd	Non-farm Payrolls, July Monthly Chg.	163,000
Aug. 3rd	Unemployment Rate, July	8.3%
Aug. 3rd	ISM Non-Mfg. Index, July	52.6

Bond Market Update

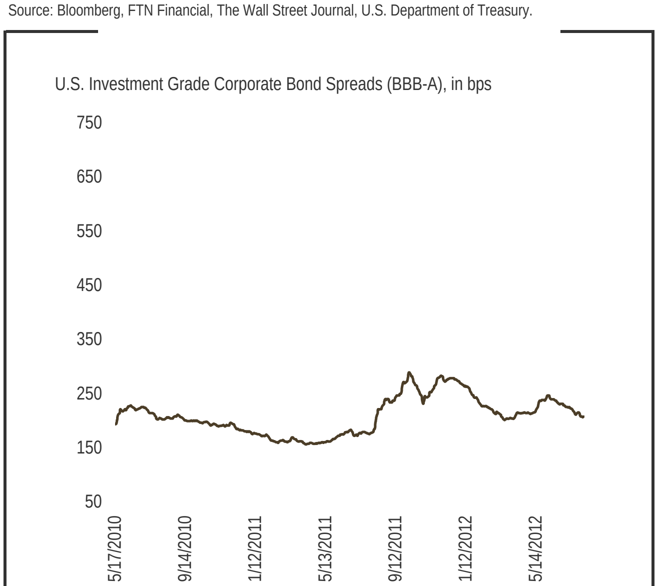
For the second straight week, the bond market closed lower as investors rushed out of U.S. Treasuries and into stocks.   A key boost to investor sentiment came from members of German Chancellor Angela Merkel's coalition party signaling they will not stand in the way of planned government bond purchases by the ECB's chief central banker Mario Draghi. The U.S. Federal Reserve also said they will "provide additional accommodation as needed" to spur economic growth and employment. On Thursday, Mr. Draghi said the ECB "may undertake outright open market operations of a size adequate to reach its objective" of an effective transmission of monetary policy. Specifically, he said the ECB is ready to re-launch its bond purchase program under the necessary condition that governments fulfill their "commitments and responsibilities." By this, he clearly puts the pressure back on governments because for the ECB to step in, member states would first have to formally request European Financial Stability Facility (EFSF) support and demonstrate a willingness to implement plausible austerity measures. Finally, the ECB said it would announce the details of these policy measures in September. Markets were disappointed but still hopeful of ECB interventions, as long-dated Spanish and Italian bond yields jumped sharply after the announcement. However, the short-end was flat or even tightened, reflecting Draghi's statement that any bond buying would focus on the short paper.

Issue	7.27.12	8.3.12	Change
3 month T-Bill	0.11%	0.09%	-0.02%
2-Year Treasury	0.25%	0.24%	-0.01%
5-Year Treasury	0.65%	0.67%	0.02%
10-Year Treasury	1.58%	1.60%	0.02%
30-Year Treasury	2.63%	2.65%	0.02%

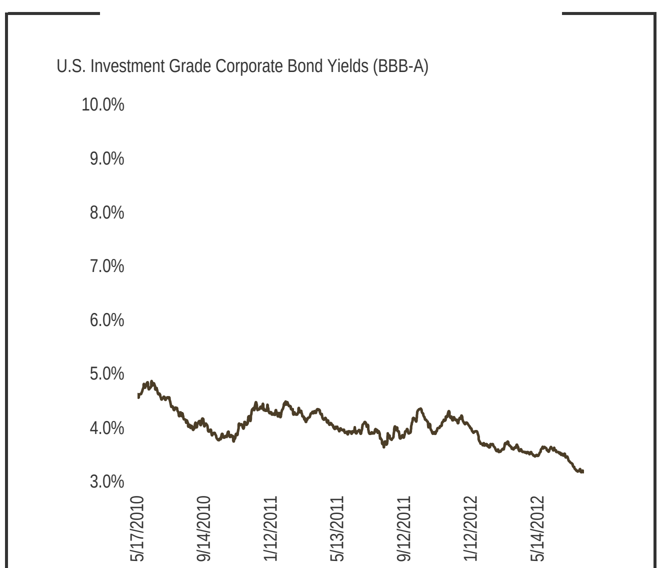
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



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



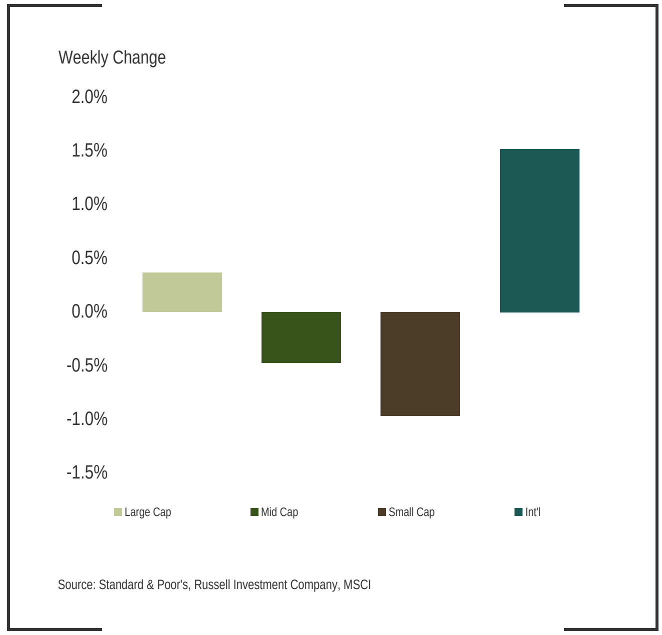
Source: Merrill Lynch

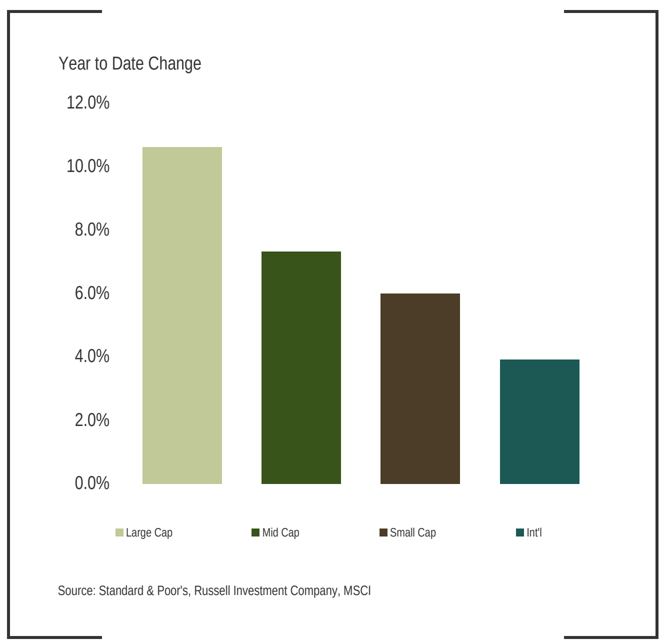
Stock Market Update

Domestic and international equity markets remained relatively calm the first three trading days of the week awaiting news from the European Central Bank (ECB) and its decision concerning interest rates and additional plans to repair the sovereign debt crisis. Upon the announcement to keep rates unchanged, the market sold off on Thursday only to rally back Friday with a positive employment report. The Dow Jones Industrial Average closed at 13,096.17, up 21 points for the week, or up 0.16%. The broader S&P 500 Index ended the week up 0.36% to close at 1,390.99, while the NASDAQ Composite finished higher by 10 points, or up 0.33% to close the week out at 2,967.90.

The markets seem to be reacting with news out of Europe of late. After last week's statement by Mario Draghi, ECB President, claiming the ECB will do everything in its power to fix the current problems in Europe, markets were sent higher. Similarly, after a two-day meeting this week, the ECB announced early Thursday morning interest rates will remain unchanged and no immediate plan or measures aimed directly at tackling the region's debt problem are in motion at this time. This news led to a steep sell-off in both European and domestic stock markets.

Friday morning the non-farm payrolls number announced an increase of 163,000 in July, topping many analysts' expectations of an increase of 100,000. The negative reaction from the ECB statement Thursday was quickly reversed with this report, sending international and domestic markets higher, and erasing the losses from the prior day to close out the week positive.





Issue	7.27.12	8.3.12	Change
Dow Jones	13,075.66	13,096.17	0.16%
S&P 500	1,385.97	1,390.99	0.36%
NASDAQ	2,958.09	2,967.90	0.33%
Russell 1000 Growth	645.86	647.53	0.26%
S&P MidCap 400	949.15	944.68	-0.47%
Russell 2000	795.86	788.16	-0.97%
MSCI EAFE	1,426.25	1,447.88	1.52%
MSCI Small Cap	916.44	944.95	0.31%

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

With gold on the minds of many this week as the Olympic Games get under way, the metal slipped 1.42%, settling at $1,605.90 an ounce. The precious metal popped back above $1,600 an ounce on Friday, cutting some of this week's losses as a better-than-expected reading on the U.S. labor market dented the dollar and drew investors to commodities. The metal was on track for its biggest weekly drop in six weeks, after the Fed avoided any hints of an imminent stimulus in its recent statement, but instead announced a new round of major support could be on the way if the recovery did not pick up.

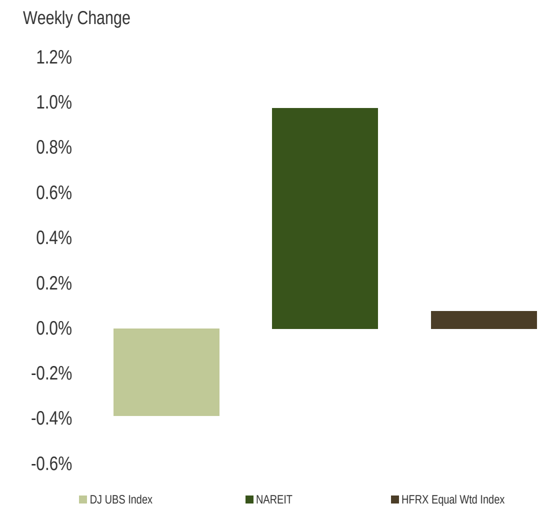
Also spurred by optimism following a positive U.S. jobs report, crude oil rallied nearly 5% on Friday, closing at $91.20 a barrel, up $1.12 or 1.24%. Crude had dropped nearly 2% on Thursday after the ECB held interest rates steady and did not announce any immediate plans to restart purchases of Spanish and Italian bonds. Crude's surge on Friday followed data from the Energy Information Administration showing a surprisingly sharp fall of 6.5 million barrels in U.S. crude inventories.

U.S. corn production may be 24% smaller than the government's estimate as drought in the Midwest has slashed yields and spured farmers to abandon acres, Farm Futures magazine said, citing a survey of 1,800 growers. The corn harvest may plunge to 9.86 billion bushels this year, below the U.S. Department of Agriculture's current projection of 12.97 billion bushels and 33% less than the government's June forecast for a record 14.79 billion, Farm Futures stated this week. Corn futures have surged 56% since mid-June, touching a record $8.205 a bushel on July 31, as the U.S. suffered its worst drought since 1956.

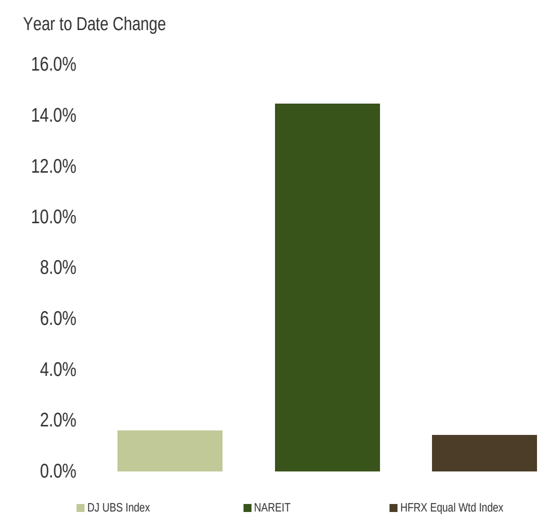
Hedge funds began Q3 in the black, with the Dow Jones Suisse Core Hedge Fund Index rising 1.02% last month, not far off the S&P 500's 1.26% return. All but one of the seven strategies tracked by the indices gained ground last month. For the week, the HFRX Equal Weighted Strategies Index gained 0.08%, settling at 1,113.08, while the HFRX Equity Market Neutral Index lost 0.26%, closing at 928.94.

Issue	Previous Week	Current[1]	Change
Gold	1,629.10	1,605.90	-1.42%
Crude Oil Futures	90.08	91.20	1.24%
Copper	343.00	336.25	-1.97%
Sugar	22.52	22.00	-2.31%
HFRX Equal Wtd. Strat. Index	1,112.24	1,113.08	0.08%
HFRX Equity Hedge Index	1,010.82	1,016.05	0.52%
HFRX Equity Market Neutral	931.39	928.94	-0.26%
HFRX Event Driven	1,342.90	1,347.41	0.34%
HFRX Merger Arbitrage	1,505.22	1,500.87	-0.29%
Dow Jones UBS Commodity Index	143.48	142.92	-0.39%
FTSE/NAREIT All REIT	156.68	158.21	0.98%

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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