

MainStreet Advisors Financial Market Update

August 31, 2012
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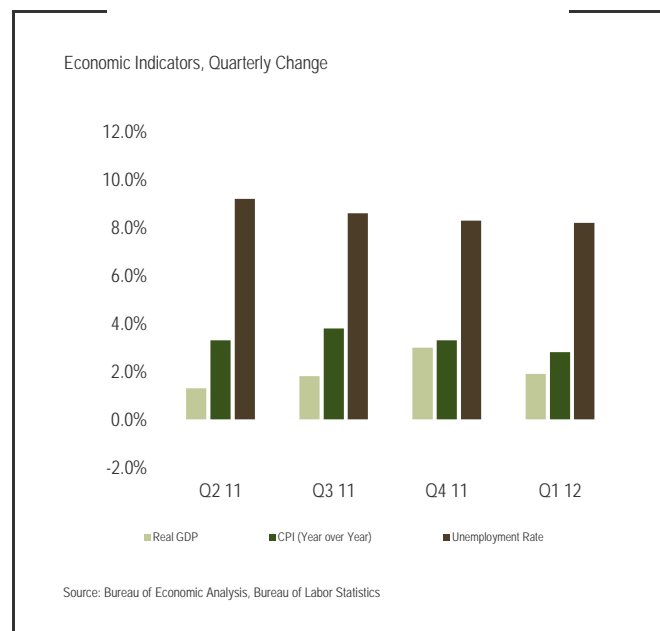
Economic Update

The U.S. economy grew slightly faster in the second quarter than originally reported as exports were stronger and consumer spending grew more than initially thought. The first revision showed GDP growth of 1.7% from April to June, up from the 1.5% figure first reported and in line with expectations. The upward revision was nice and shows the recovery continues, but the economy is still not growing fast enough to put a meaningful dent in our nation's unemployment numbers.

The housing market may help boost economic growth in the second half of the year as recent data continues to indicate improvement in that market. The Case-Shiller 20-City Home Price index rose for the fifth time in a row, up 0.9% in June. The year-over-year growth rate came in up 0.5% – the first positive reading in nearly two years. With prices improving and mortgage rates near 40-year lows, the housing market looks poised for a revival.

Personal income and consumer spending were up 0.3% and 0.4%, respectively, for the month of July, indicating the consumer's condition is improving. Despite this trend, the Conference Board's consumer confidence index was down almost 5 points this month to 60.6 as pessimism grew about the outlook for future conditions.

The week ended with Ben Bernanke's much anticipated speech from Jackson Hole, Wyoming. The Federal Reserve Chairman hinted at further easing saying "the Federal Reserve will provide additional policy accommodation as needed to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability." He furthered his case by saying the economy "is obviously far from satisfactory," and the "stagnation of the labor market in particular is a grave concern not only because of the enormous suffering and waste of human talent it entails, but also because persistently high levels of unemployment will wreak structural damage on our economy that could last for many years." Regardless of whether or not it is wanted or needed, additional stimulus appears likely.

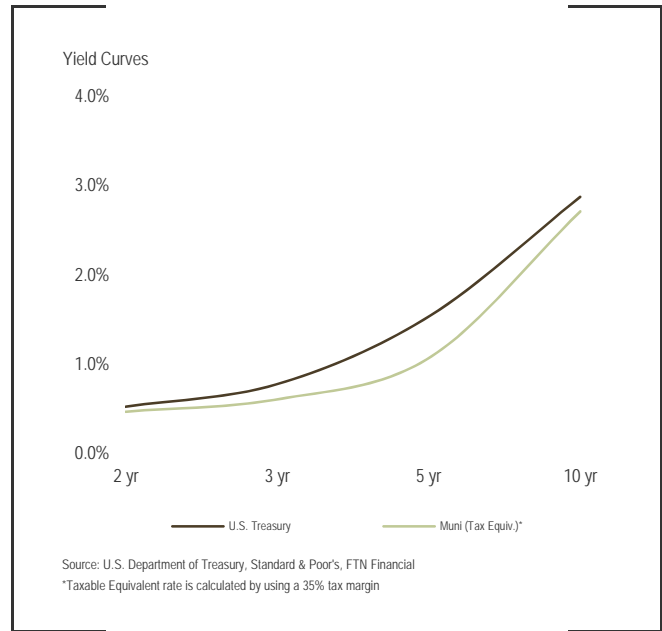


Aug. 28 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.5%
Aug. 28 th	S&P/Case-Shiller 20-city Index, June Monthly Chg.	0.9%
Aug. 28 th	Consumer Confidence Index, August	60.6
Aug. 28 th	State Street Investor Confidence Index, August	90.9
Aug. 29 th	MBA Purchase Applications Index, Wkly. Chg.	1.0%
Aug. 29 th	Real GDP, Q2p Quarterly Change SAAR	1.7%
Aug. 29 th	GDP Price Index, Q2p Quarterly Change SAAR	1.6%
Aug. 29 th	Pending Home Sales, Aug Monthly Chg.	2.4%
Aug. 29 th	EIA Petroleum Status Report, Wkly. Chg.	3.8M Barrels
Aug. 30 th	Initial Jobless Claims (week ending 8/31)	374,000
Aug. 30 th	Personal Income, Aug Monthly Chg.	0.3%
Aug. 30 th	Consumer Spending, Aug Monthly Chg.	0.4%
Aug. 30 th	Core PCE Price Index, Aug Monthly Chg.	0.0%
Aug. 31 st	Chicago PMI Business Barometer Index, August	53.0
Aug. 31 st	Consumer Sentiment Index, August	74.3
Aug. 31 st	Factory Orders, Aug Monthly Chg.	2.8%

Bond Market Update

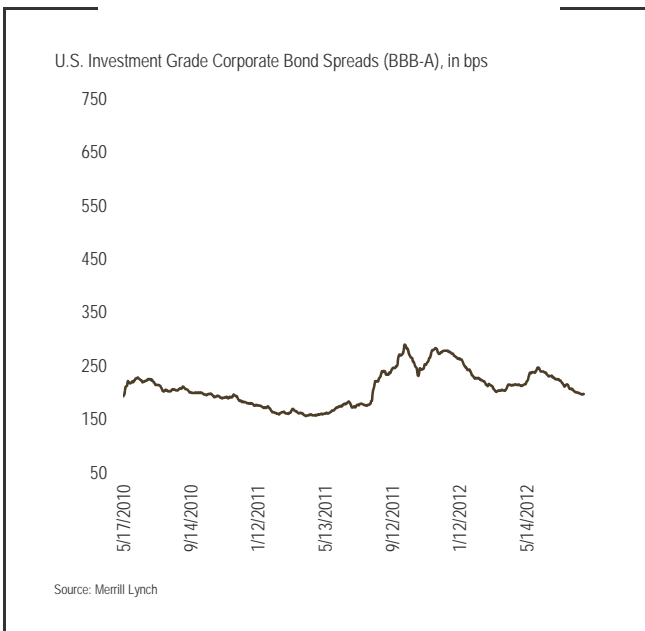
U.S. Treasury bonds were little changed through the week as investors feared making big bets ahead of possible central bank action in the U.S. and Europe. The much anticipated speech by Federal Reserve Chairman Ben Bernanke failed to offer any material information regarding what or when further actions may be taken by the Central Bank. Fixed income investors were left to continue investment themes that have worked over the summer, principally spread products. High yield and municipal bonds were notable advancers for the week.

Like the U.S., investors in Europe anxiously awaited further clarity regarding the prospect of ECB direct purchases of sovereign debt. The concept, which is being pushed by ECB Chairman Mario Draghi, is short on details, but investors bid Spanish and Italian debt in anticipation of the ECB capping interest rates for those nations. The drop in Spanish yields was especially surprising considering ECB data continues to show Spanish banks selling their holdings of Spanish national debt to meet outflows of deposits.



Issue	8.24.12	8.31.12	Change
3 month T-Bill	0.10%	0.10%	0.00%
2-Year Treasury	0.28%	0.27%	-0.01%
5-Year Treasury	0.72%	0.66%	-0.06%
10-Year Treasury	1.68%	1.63%	-0.05%
30-Year Treasury	2.79%	2.75%	-0.04%

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



Stock Market Update

The equity markets finished a quiet week by rallying Friday on light volume following Federal Reserve Chairman Ben Bernanke's comments from the retreat held in Jackson Hole, Wyoming. The Dow Jones Industrial Average closed at 13,090.84, down 67 points for the week. The broader S&P 500 Index ended the week down 0.32% to close at 1,406.57, while the NASDAQ Composite finished lower by 3 points, or down 0.09% to close the week out at 3,066.96.

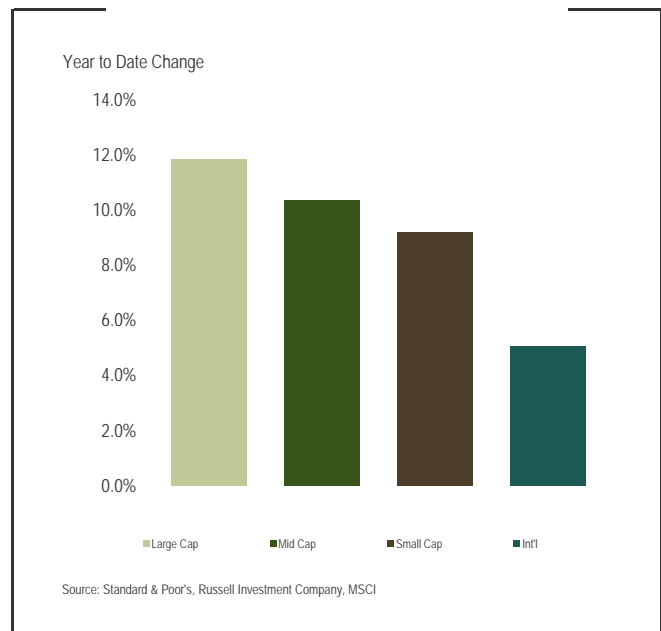
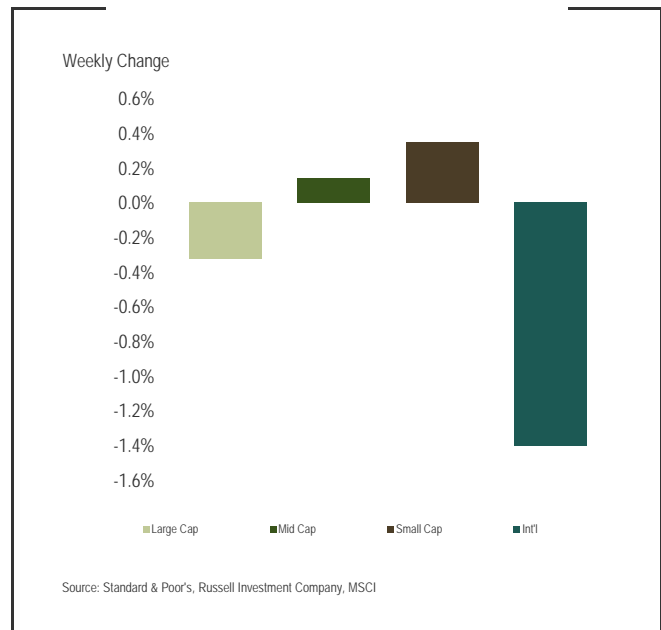
The U.S. stock market moved higher Friday as Bernanke reiterated the central bank will do everything in their power to further bolster the economy. He did not lay out a plan nor did he pre-commit to further quantitative easing, but he did leave the door open. Bernanke also defended the previous stimulus measures, saying they created over two million jobs and helped support stock prices.

The European markets held their gains Friday after the speech, and, more importantly, reports surfaced that the European Commission will hand over power of the euro-area banking sector to the European Central Bank (ECB). The ECB is expected to meet next week; many expect a plan to be laid out for the stabilization and capitalization of the banking system.

The Facebook watch continued as the stock was down over 5% for the week after numerous downgrades by analysts. The major issue facing Facebook is the expiration of the post-IPO lockup period. 271 million shares were released in August and an additional 1.3 billion will become available in November, further increasing the float and causing downward pressure on the stock. The stock ended the week at its lowest price since the IPO closing at \$18.08.

Issue	8.24.12	8.31.12	Change
Dow Jones	13,157.97	13,090.84	-0.51%
S&P 500	1,411.13	1,406.57	-0.32%
NASDAQ	3,069.79	3,066.96	-0.09%
Russell 1000 Growth	659.59	657.92	-0.25%
S&P MidCap 400	970.16	971.56	0.14%
Russell 2000	809.19	812.01	0.35%
MSCI EAFE	1,484.79	1,463.96	-1.40%
MSCI Small Cap	974.09	944.39	-0.60%

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.

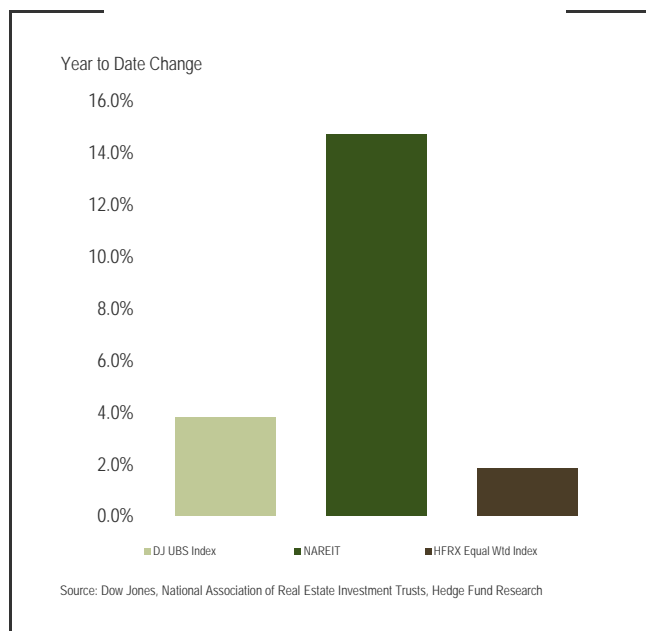
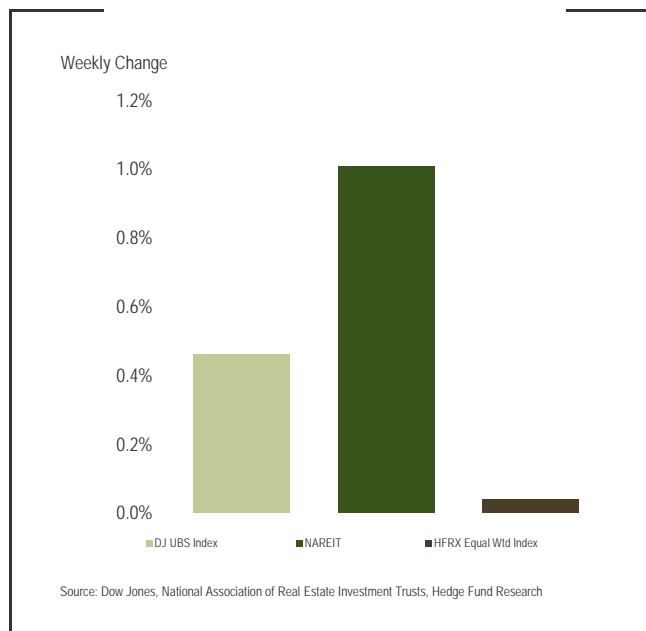


Alternative Investments Market Update

Gold jumped Monday then fell through the week before rebounding nearly 2% on Friday in anticipation of the Jackson Hole summit. Gold prices may be greatly affected by Ben Bernanke's announcement concerning the likelihood of another round of quantitative easing by the Fed. Prices rose with the expectation that action would be taken, either easing or printing more money to buy bonds, but prices could correct with news of delayed Fed action. Gold hit a nearly five-month high on Monday of \$1676.45 per ounce on expectations of a positive Fed announcement. Gold prices doubled in 2008 when the first round of Quantitative Easing was announced, as lower rates essentially translates into lesser opportunity costs of holding gold.

Energy analysts noted Hurricane Issac had little effect on U.S. oil production; rigs that were shut down will resume over the next few days. Although gasoline prices did jump as a result of southern refineries halting production, analysts expect this to turn around after the Labor Day weekend as production resumes.

Data was released this week by the Building Owners and Managers Association indicating office sector rents rose in 2011, a sign of growing confidence of corporate earnings potential. This provides the opportunity for increased income for commercial REITs, a significant positive turnaround from the past few years with owners keeping rents low to retain tenants. Additionally, a recent analysis of commercial real estate loans found that in the second quarter of 2012 bank default rates saw the largest drop since 2008, a major sign of recovery. Chandan Economics president Sam Chandan notes increased bank lending and the gradual drawdown of lower quality loans are the primary reasons for this number.



Issue	Previous Week	Current ¹	Change
Gold	1,671.90	1,694.80	1.37%
Crude Oil Futures	95.90	94.44	-1.52%
Copper	348.90	345.55	-0.96%
Sugar	19.58	19.78	1.02%
HFRX Equal Wtd. Strat. Index	1,117.08	1,117.53	0.04%
HFRX Equity Hedge Index	1,026.02	1,025.59	-0.04%
HFRX Equity Market Neutral	930.21	929.47	-0.08%
HFRX Event Driven	1,358.87	1,351.62	-0.53%
HFRX Merger Arbitrage	1,506.76	1,509.65	0.19%
Dow Jones UBS Commodity Index	145.36	146.03	0.46%
FTSE/NAREIT All REIT	157.01	158.59	1.01%

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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