MainStreet Advisors
Financial Market Update

September 14, 2012

Economic Update

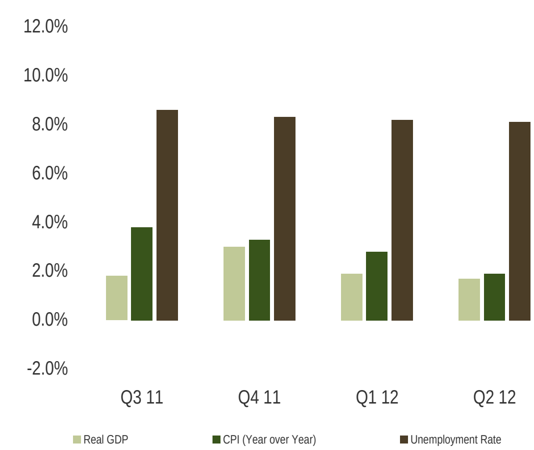
Well, QE3 is a go. The Federal Reserve announced on Thursday that in addition to extending its policy of keeping short-term rates at “exceptionally low levels” until mid-2015 (previously until late 2014), they will also engage in a third round of quantitative easing. The Fed will buy $40 billion in mortgage-backed securities each month indefinitely in an attempt to boost the economy. The direct effect of this will be to keep mortgage rates low, but we think this is a controversial strategy considering mortgage rates are already near all-time lows and are not, in our opinion, what is holding back economic growth. We believe the likely result of QE3 will be a boost for the stock market over the near-term which will increase the odds of both President Obama and in turn Fed Chairman Ben Bernanke of keeping their jobs.

The U.S. trade gap edged up to $42.0 billion in July from $41.9 billion the previous month, but this was less than the $44.3 billion analysts had been forecasting. The trade gap remained in check due to a $1.6 billion improvement in the petroleum deficit, but with the increase in oil prices recently this is likely to reverse in the next report. There was more bad news for manufacturing as exports decreased 1.0%, led by a $2.4 billion drop in industrial supplies.

Inflation made a strong comeback in August with the CPI jumping 0.6%. The increase was led by a 9.0% surge in the price of gasoline. Inflation hawks will ring alarm bells over this headline number, while the doves will point to the much more modest 0.1% increase in the core level. Year-over-year the headline inflation number increased to 1.7% from 1.4% in July. At the more volatile producer level inflation jumped 1.7% as the energy component surged 6.4%.

The large increases in gas prices that boosted CPI and PPI also were largely behind the improvement in headline retail sales. Sales at gas stations surged 5.5% in August helping to push overall retail sales up 0.9%. Stripping out the gasoline component and a 1.3% increase in auto sales core retail was up a modest 0.1%.

Economic Indicators, Quarterly Change



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

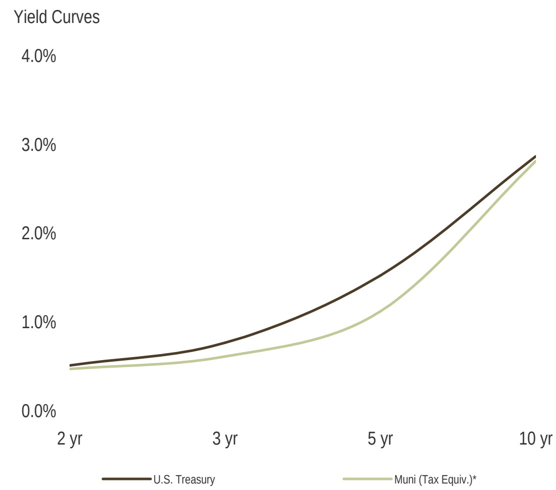
Sep. 11th	ICSC-Goldman Same Store Sales, Wkly. Chg.	1.0%
Sep. 11th	International Trade Balance Level, July	-42.0B
Sep. 12th	MBA Purchase Applications Index, Wkly. Chg.	11.1%
Sep. 12th	Import Prices, August Monthly Chg.	0.7%
Sep. 12th	Export Prices, August Monthly Chg.	0.9%
Sep. 12th	Wholesale Inventories, July Monthly Chg.	0.7%
Sep. 12th	EIA Petroleum Status Report, Wkly. Chg.	2.0M Barrels
Sep. 13th	Initial Jobless Claims (week ending 9/8)	382,000
Sep. 13th	Producer Price Index, Aug. Monthly Chg.	1.7%
Sep. 13th	EIA Natural Gas Report, Wkly. Chg.	27 bcf
Sep. 14th	Consumer Price Index, Aug. Monthly Chg.	0.6%
Sep. 14th	Retail Sales, Aug. Monthly Chg.	0.9%
Sep. 14th	Industrial Production, Aug. Monthly Chg.	-1.2%
Sep. 14th	Consumer Sentiment Index, September	79.2
Sep. 14th	Business Inventories, July Monthly Chg.	0.8%

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

Continuing the recent trend, U.S. Treasuries closed lower for the week with 30-year bond yields posting their largest weekly surge in three years. A key driver of the sell-off was the announcement by the Federal Reserve to buy an additional $40 billion of agency mortgage-backed securities, with no extra cash targeted at Treasuries, every month without an end date. This, along with Operation Twist, will bring total monthly purchases of this sector of the market to $85 billion. At the same time, the mortgage-backed market rallied as the central bank's announcement far exceeded expectations. Reflecting this change, relative yields on mortgages dropped to their lowest level on record. Looking forward, many analysts expect these securities to continue to rally given that the Fed will be reducing supply by a considerable amount.

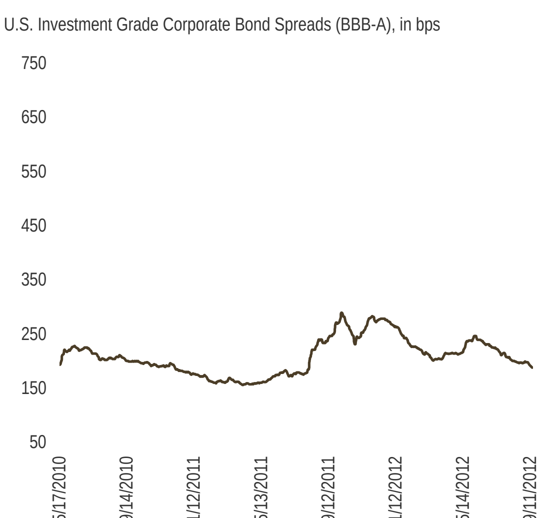
More bond-buying stimulus also raises the possibility of inflation. Although inflation is not currently a concern from a labor cost perspective, the perception that the central bank will do whatever it takes to reflate the economy has some market participants concerned. The yield gap, or difference in yields, between Treasuries and similar maturity TIPS (Treasury Inflation Protected Securities), an indication of traders' outlook for consumer prices, widened to its highest level in 13 months.



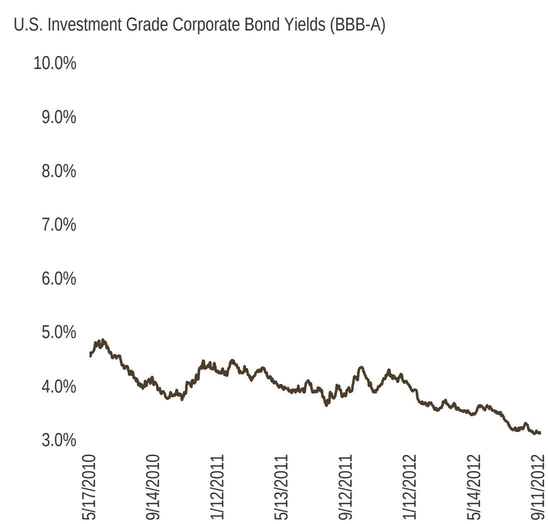
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	9.7.12	9.14.12	Change
3 month T-Bill	0.11%	0.10%	-0.01%
2-Year Treasury	0.25%	0.24%	-0.01%
5-Year Treasury	0.64%	0.65%	0.01%
10-Year Treasury	1.67%	1.75%	0.08%
30-Year Treasury	2.81%	2.95%	0.14%

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



Source: Merrill Lynch



Source: Merrill Lynch

Stock Market Update

The equity markets surged at week end on heavy volume after Ben Bernanke announced the Federal Reserve will undertake another round of quantitative easing. The Dow Jones Industrial Average closed at 13,593.37, up 287 points for the week, or up 2.15%. The broader S&P 500 Index ended the week up 1.94% to close at 1,465.77, while the NASDAQ Composite finished higher by 48 points, or up 1.52% to close the week out at 3,183.95.

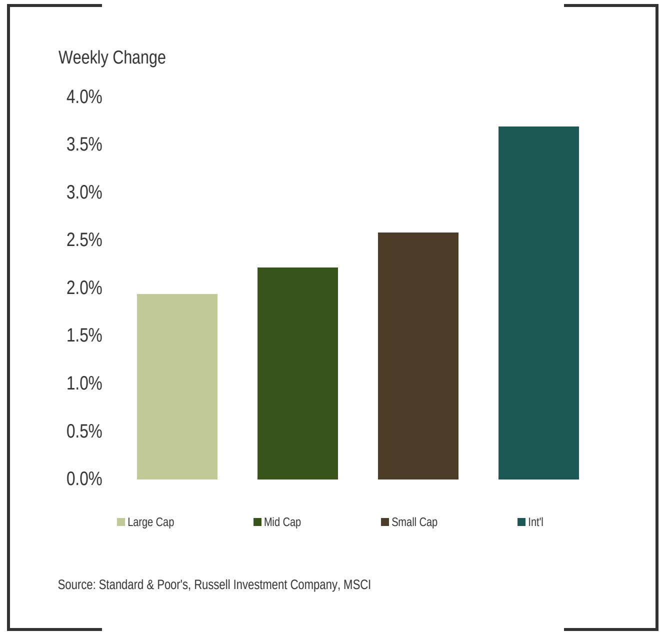
While markets expected the third round of quantitative easing (QE3) from the Fed, the specifics of the announcement went far beyond what was expected. Unlike any previous easing moves, the Fed committed to an open ended mortgage purchase program of $40 billion per month until the job market improves significantly. Equity assets rallied across the board; however, higher risk assets received stronger bids with the Russell 2000 small cap index outperforming both mid and large cap indices.

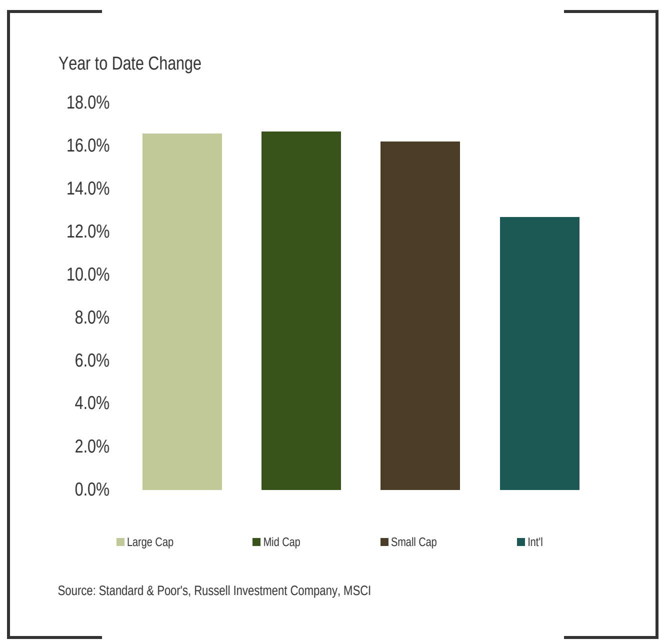
The announcement by the Fed, on the heels of last week's ECB bond purchasing program pronouncement sent European shares to highs for the year. The rise reflects both renewed "risk on" sentiment as well as some dollar weakness as investors fear QE3 will cheapen the dollar versus other currencies.

Apple generated headlines this week with the release of the iPhone 5 on Thursday, which analysts consider a primary catalyst for Apple outperformance over the next year; the stock is up 5% from Wednesday, and analysts are calling for 6 to 10 million iPhone 5 sales by the end of the month. Analysts are bullish as investment bank Piper Jaffray is calling for a 20% increase in fourth quarter iPhone sales and FBN Securities raised its fair value estimate to $1000 for the stock.

Issue	9.7.12	9.14.12	Change
Dow Jones	13,306.64	13,593.37	2.15%
S&P 500	1,437.92	1,465.77	1.94%
NASDAQ	3,136.42	3,183.95	1.52%
Russell 1000 Growth	669.77	680.50	1.60%
S&P MidCap 400	1004.6	1026.85	2.21%
Russell 2000	842.27	863.99	2.58%
MSCI EAFE	1,514.00	1,569.91	3.69%
MSCI Small Cap	950.45	982.00	3.86%

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

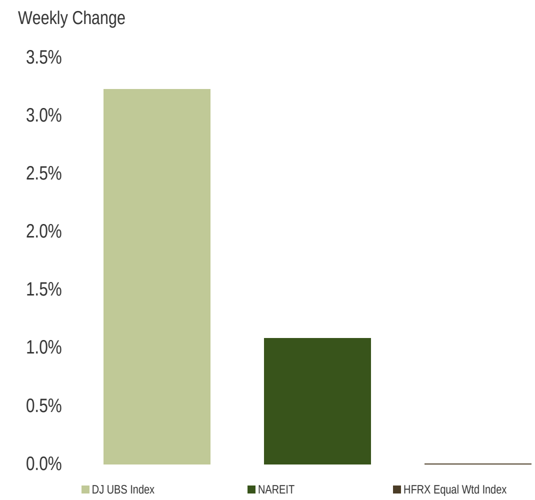
Gold hit a six-month high this week, extending the metal's rally after receiving a boost from the US Federal Reserve's decision to launch a fresh round of quantitative easing. The price rally came after Ben Bernanke, the Fed chairman, stated that the US central bank would buy $40 billion of mortgage-back securities per month until economic conditions improve. It is to be noted that while the metal has strengthened in the short time since the stimulus announcement, the price of the metal was also boosted substantially by the first round of quantitative easing in 2008-10 while the second round, which took place in much calmer markets, had very little impact on the precious metal. For the week, gold was up 2.00%, or $35, to settle at $1,773.50 an ounce.

Crude oil had a positive week after the QE3 announcement, ending the week up 2.79%, settling at $99.01 a barrel. Highlighting the risk to the economy from surging oil prices, a jump in gasoline costs pushed up U.S. consumer prices in August at the fastest pace in more than three years and squeezed spending on other items, threatening to slow economic growth. Industrial production dropped 1.2% in August, the biggest decline since March 2009. Gasoline prices, which also recorded their largest increase since June 2009, accounted for about 80% of the rise in consumer inflation last month, according to the Labor Department.

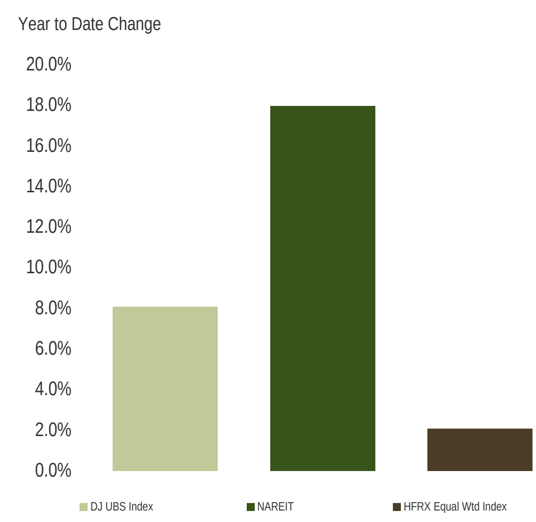
Hedge fund liquidations in the first half of the year were up 14% compared to the first half of 2011. According to reports from Hedge Fund Research (HFR), a total of 192 funds closed up shop in Q2 alone. With regards to startups, there were 304 in Q1 and 245 in Q2, with Q2 being the lowest quarterly total since Q4 2010. HFR went on to note that the gap between the top and bottom decile of funds narrowed to 23.2% in Q2, with the top decile reporting an average gain of 7.0% and the bottom reporting an average drop of 16.2%. Also, management fees remained largely unchanged at 1.57% across the industry, although funds launched so far this year carried an average fee of 1.65%.

Issue	Previous Week	Current[1]	Change
Gold	1,738.70	1,773.50	2.00%
Crude Oil Futures	96.32	99.01	2.79%
Copper	364.50	381.75	4.73%
Sugar	19.38	20.77	7.17%
HFRX Equal Wtd. Strat. Index	1,119.93	1,120.00	0.01%
HFRX Equity Hedge Index	1,033.39	1,032.79	-0.06%
HFRX Equity Market Neutral	932.86	929.20	-0.39%
HFRX Event Driven	1,366.73	1,370.98	0.31%
HFRX Merger Arbitrage	1,503.06	1,500.65	-0.16%
Dow Jones UBS Commodity Index	147.26	152.01	3.23%
FTSE/NAREIT All REIT	161.30	163.05	1.08%

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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