MainStreet Advisors
Financial Market Update

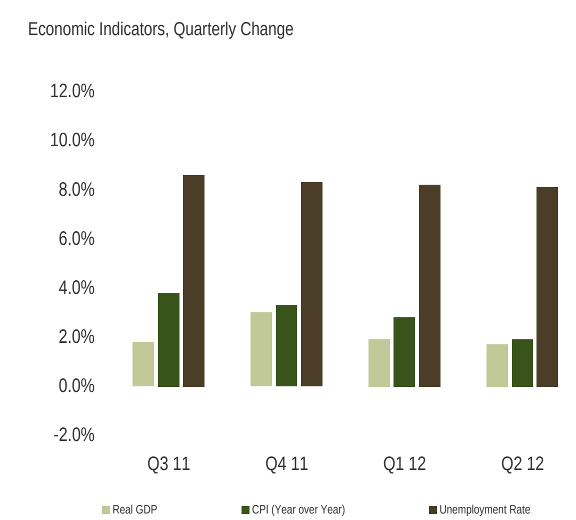
September 21, 2012

Economic Update

Happy iPhone 5 day! Whether you are the type of person who laughs at the Apple fan boys and fan girls who line up for days to get a phone they could have easily ordered online last week or you are the type of person that missed work today to join them, we can all appreciate the positive impact it will have on the economy. J.P. Morgan's chief economist, Michael Feroli thinks sales of the new iPhone could add between a quarter and a half percentage point to fourth quarter annualized growth in the U.S. Mine will be waiting in my mailbox at home, so I'm doing my part.

Existing home sales came in very strong in August, up 7.8% to an annual rate of 4.82 million. This was the largest increase in a year and the highest rate since May 2010. Supply on the market remains tight at 6.1 months. Median prices fell 0.2% to $187,400 but that was still 9.5% higher than August of last year. There was a rebound in housing starts during the month, although the number fell a little short of expectations. Starts advanced 2.3% to a 750,000 annual pace. Housing permits fell back 1.0% in August following a strong 6.7% rebound the previous month. Despite the soft permit numbers, the outlook for the housing market continues to improve as builder confidence grew for the fifth straight month. The NAHB housing market index rose three points to 40 – its highest level in five years. It stands to reason that homebuilders are usually among the first to recognize changes in the housing market, and an improvement in their sentiment bodes well for the health of the overall economy.

The Philadelphia Fed Survey came in at minus 1.9 indicating contraction for manufacturing in the Mid-Atlantic region. The number was better than expected, though, and the new orders component rose a sharp 6.5 points posting the first positive reading since May. Manufacturing data was gloomier overseas as a regional purchasing managers index fell to a 39-month low in Europe. The recession in Europe has hit China particularly hard. An HSBC report showed that manufacturing in China contracted for the eleventh straight month in September.



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Sep. 17th	Empire State Mfg Survey, September	-10.41
Sep. 18th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-2.5%
Sep. 18th	Housing Market Index, September	40.0
Sep. 19th	MBA Purchase Applications Index, Wkly. Chg.	-0.2%
Sep. 19th	Housing Starts, August	750,000
Sep. 19th	Existing Home Sales, August SAAR*	4.82M
Sep. 19th	EIA Petroleum Status Report, Wkly. Chg.	8.5M Barrels
Sep. 20th	Initial Jobless Claims (week ending 9/15)	382,000
Sep. 20th	Philidelphia Fed Survey, September	-1.9
Sep. 20th	Leading Indicators, Aug. Monthly Chg.	-0.1%
Sep. 20th	EIA Natural Gas Report, Wkly. Chg.	67 bcf

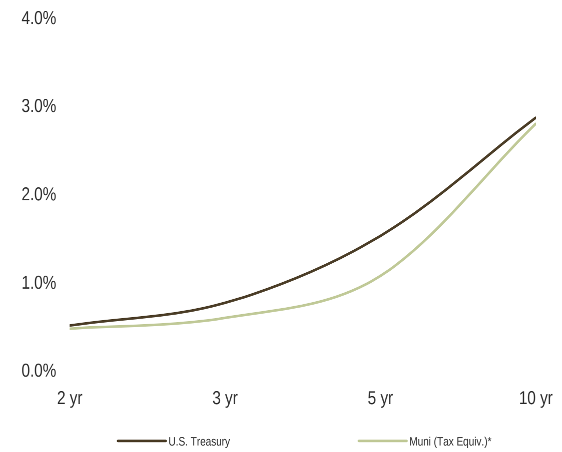
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Fixed income markets ended the week quietly after recent tumult due to central bank intervention. Investors reversed recent trends of risk seeking to either lock in profits or hedge against potential policy mistakes. The ten-year Treasury received healthy bids and saw yields drop 13 basis points over the course of the week. Riskier bonds, including international and high yield, saw investors trim positions. While trends did reverse a bit for most of the fixed income complex, TIPS continued to receive strong bids as investors remained deeply concerned the Federal Reserve's "QE Infinity" will eventually lead to surging inflation. Thursday's ten-year TIPs auction saw yields come in at their lowest rate ever, -0.75%, and with a strong bid to cover of 2.36.

Internationally, the Bank of Japan followed the lead of other central banks by announcing a monetary easing policy of their own. While Brazil's finance chief has derided the recent spate of central bank action as "currency wars" between developed and emerging market nations, investors continued to see central bank intervention as a key support for expanding global economic growth. Peripheral EU bonds continued to be beneficiaries of this environment, with Spain in particular seeing its borrowing costs ease.

Yield Curves

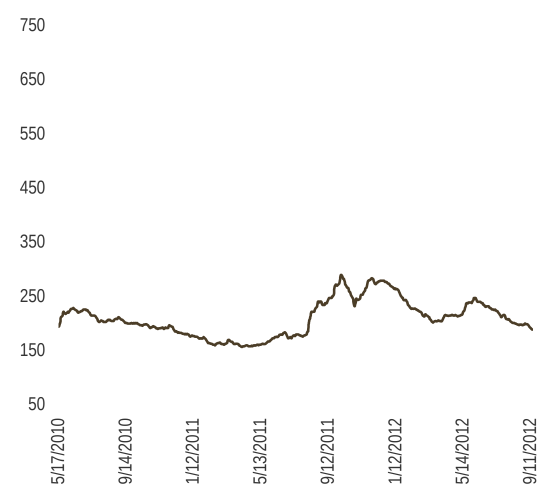


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	9.14.12	9.21.12	Change
3 month T-Bill	0.10%	0.11%	0.01%
2-Year Treasury	0.24%	0.27%	0.03%
5-Year Treasury	0.65%	0.68%	0.03%
10-Year Treasury	1.75%	1.77%	0.02%
30-Year Treasury	2.95%	2.95%	0.00%

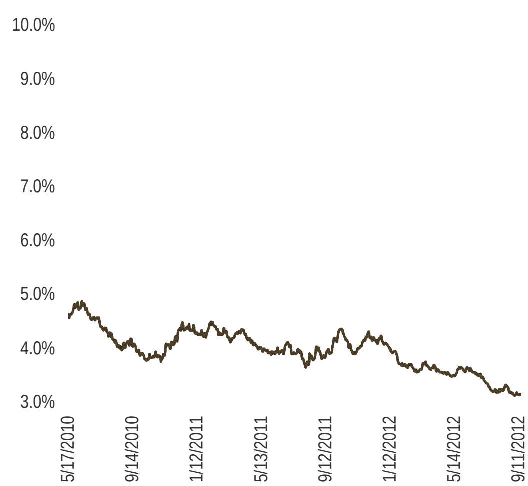
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

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



Source: Merrill Lynch

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



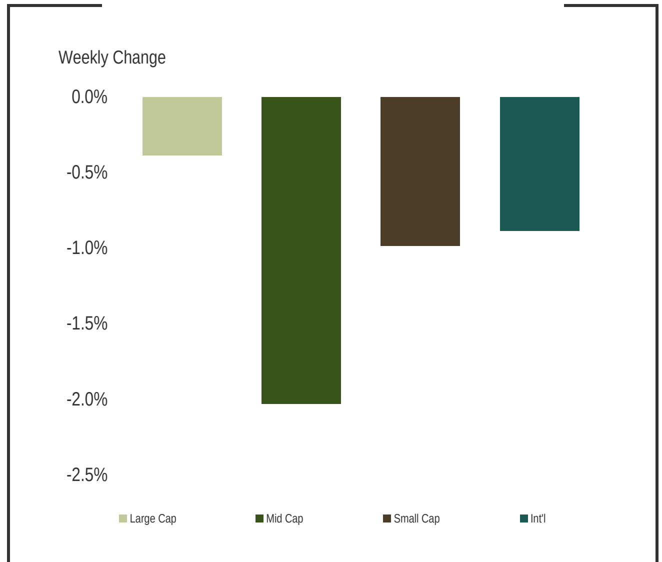
Source: Merrill Lynch

Stock Market Update

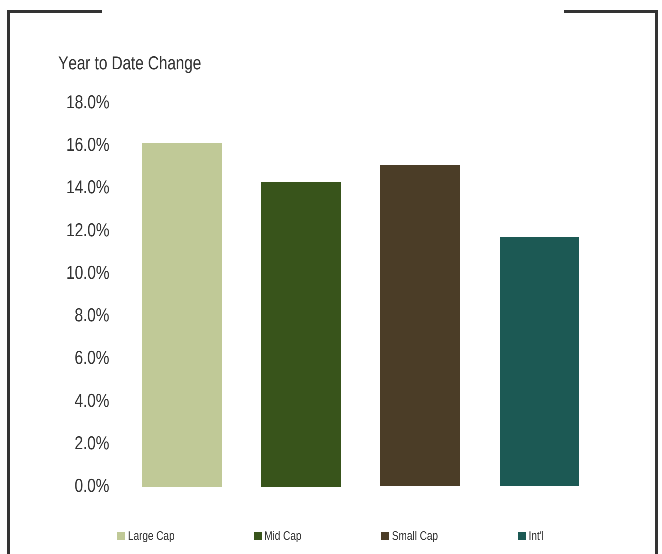
After major domestic equity market indices hit multi-year highs last week, stocks were volatile but ended basically flat for the week ending September 21. The Dow Jones Industrial Average closed at 13579.47, down slightly from last week's close of 13593.37. The S&P 500 Index finished at 1460.15, also just below last Friday's mark of 1465.77. The NASDAQ Composite Index ended the five-day trading period at 3179.96 down 3.99 points. Despite the lack of movement this week, since ECB President Mario Draghi vowed to do "whatever it takes" to keep the eurozone intact in late July, the S&P 500 has increased 7.4% and the Euro Stoxx 600 Index is up over 10%.

In Europe, stocks were mixed as markets in France and the UK each fell about 1%, but Germany's DAX Index was up 0.5% for the week. Asian stocks were weak after tensions between China and Japan over a territorial dispute led to factory shutdowns in China. News on Thursday that an initial reading of HSBC's September manufacturing conditions survey was only 47.8 also hit Chinese stocks. The Shanghai Composite fell 2.1% on Thursday and 4.0% for the five-day trading period.

Dividend payout increases from a variety of large companies were also reported this week including Microsoft, McDonald's, Texas Instruments and Fifth Third Bank. Businesses continue to return money to shareholders as evidenced by a report this week from Standard & Poor's that stock buybacks by S&P 500 companies in the second quarter increased more than 30% over the first quarter of 2012, led by Johnson & Johnson's $13 billion in share repurchases. Totaling nearly $112 billion, buybacks were up 2.3% over last year's second quarter to levels not seen since "the pre-recession heydays of 2005-2007," according to Howard Silverblatt, senior index analyst at S&P Dow Jones Indices. Healthcare companies were the most active share repurchasers, followed by Information Technology firms.



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



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

Issue	9.14.12	9.21.12	Change
Dow Jones	13,593.37	13,579.47	-0.10%
S&P 500	1,465.77	1,460.15	-0.38%
NASDAQ	3,183.95	3,179.96	-0.13%
Russell 1000 Growth	680.50	680.97	0.07%
S&P MidCap 400	1026.85	1006.04	-2.03%
Russell 2000	863.99	855.51	-0.98%
MSCI EAFE	1,569.91	1,556.06	-0.88%
MSCI Small Cap	982.00	998.27	-0.79%

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

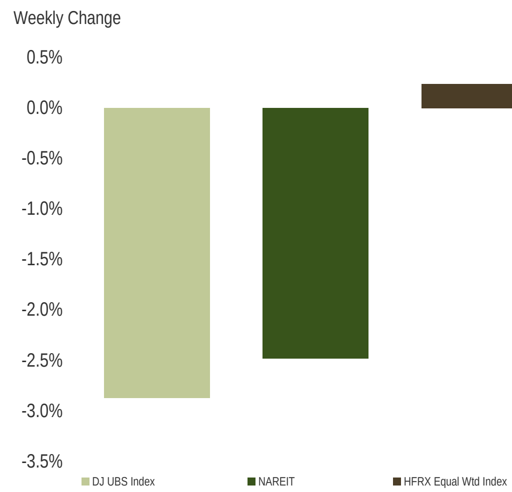
Oil advanced on Friday over optimism that central bank stimulus would revive the global economy, paring crude's biggest weekly decline in more than two months. Oil hit lows not seen since early August earlier this week due in part to comments from Saudi Arabia that the OPEC nation wanted lower oil prices and was willing to supply more oil to the market, which initially deflated expectations that QE3 would attract investors to oil. Crude did turn around though, in a move that may signal how the market is establishing a new range as traders grasp QE3 on top of the ongoing unrest in the Middle East and North Africa as well as delays in North Sea oil shipments. Also, gold hit $1,790 an ounce this week, topping its previous 2012 high set in late February, on speculation Spain may be working on a request for financial help from other European countries.

Hedge fund exit requests hit a high for the year this month, as clients demand pulling their money due to lackluster performance. Hedge fund administrator SS&C GlobeOp's forward redemption indicator, a monthly snapshot of clients giving notice to withdraw their cash as a percentage of its assets under administration, measured 3.76% in September, up from 3.34% in August and higher than the 3.11% seen a year ago. However, the indicator is still well below levels seen during the 2008 credit crisis. On the year, hedge funds have gained 3.49%, according to Hedge Fund Research, which is well below the 13.5% return from the S&P 500.

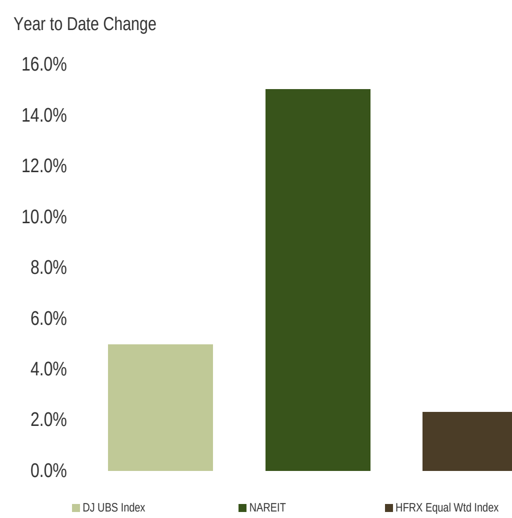
Real estate investment trusts (REITs) have bounced back since the dark days of the global credit crisis. With investors constantly looking for income-generating investments, many analysts believe it is no surprise REITs have flourished in this low interest rate environment. Year-to-date, the Vanguard REIT ETF, VNQ, has jumped 14.4%, while the iShares Dow Jones U.S. Real Estate Index Fund, IYR, has climbed 15.6%. S&P Capital IQ claims there is even further upside opportunities with REITs based on the continued growth in consumer spending, which will help "drive positive retailer sentiment, resulting in greater store openings and expansions offsetting retailer bankruptcies and store closings."

Issue	Previous Week	Current[1]	Change
Gold	1,773.50	1,776.00	0.14%
Crude Oil Futures	99.01	93.18	-5.89%
Copper	381.75	377.30	-1.17%
Sugar	20.77	20.07	-3.37%
HFRX Equal Wtd. Strat. Index	1,120.00	1,122.67	0.24%
HFRX Equity Hedge Index	1,032.79	1,035.31	0.24%
HFRX Equity Market Neutral	929.20	930.11	0.10%
HFRX Event Driven	1,370.98	1,373.96	0.22%
HFRX Merger Arbitrage	1,500.65	1,505.62	0.33%
Dow Jones UBS Commodity Index	152.01	147.65	-2.87%
FTSE/NAREIT All REIT	163.05	159.01	-2.48%

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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