MainStreet Advisors
Financial Market Update

September 28, 2012
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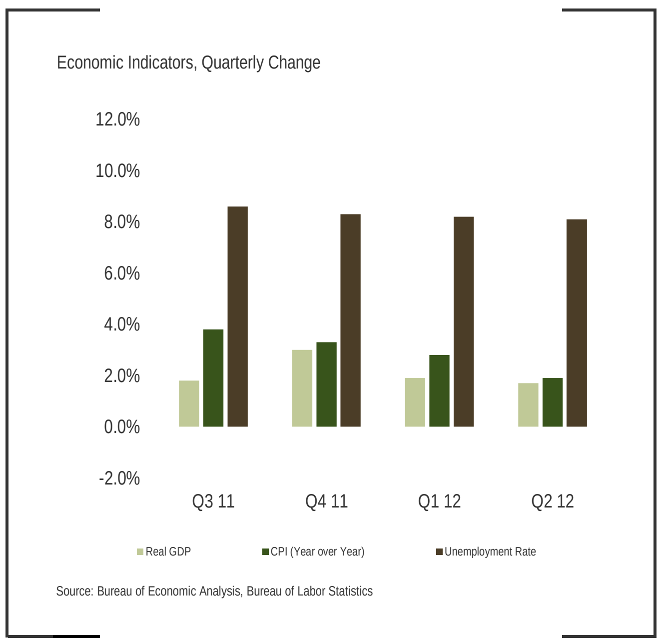
Economic Update

Real GDP for the second quarter fell unexpectedly in the third estimate to 1.3% from 1.7% in the prior revision. The downward revisions were widespread across components and indicate the recovery is not quite as strong as earlier thought. There was more discouraging news from the August durable goods report, which showed orders fell an eye-popping 13.2%. Excluding the 34.9% drop in the always volatile transportation component, new factory orders were still down 1.6% following a 1.3% drop in July. It is clear manufacturing has been a drag on the economy lately, but a few of the recent regional surveys have been a bit more positive indicating manufacturing may be getting ready to mount a comeback.

On the bright side, consumers are becoming much more upbeat about their job prospects and financial situation. The Conference Board Consumer Confidence Index rose a full 9 points to 70.3 in September. It was the best reading since February and a good sign for retail sales as confident consumers are more apt to loosen their purse strings.
The number of Americans filing for first-time unemployment benefits fell a sharp 26,000 to 359,000 for the week ended September 22. It was the best single week decline we have seen since July and may give some support to the September employment report. The four-week average was down a sizeable 4,500 but still sits slightly above the month-ago trend at 374,000.

Home prices continued their upward trend in July as the S&P/Case-Shiller national home price index rose 0.4% on a seasonally adjusted basis. The year-over-year growth rate was positive for the second month in a row and now stands at 1.2%. While these price levels are still the same as they were nine years ago, it does appear the worst is well behind us. Prices for new homes were up a record 11.2% in August to $256,900 – the highest reading since March 2007. The higher prices and tight supply likely contributed to a 0.3% slip in sales to an annual rate of 373,000. Low supplies and high prices should entice home builders to ramp up construction activity.

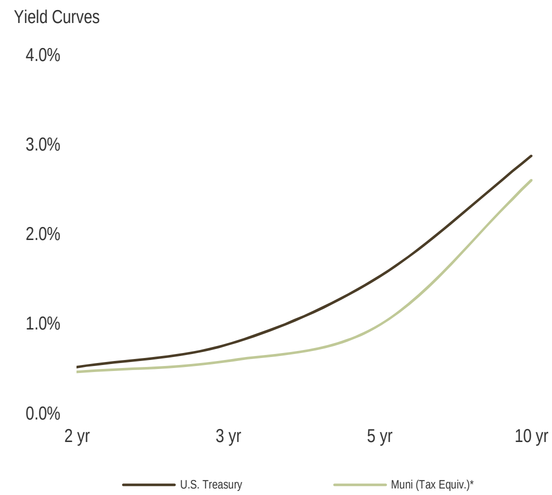
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.



Sep. 25th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.6%
Sep. 25th	S&P/Case-Shiller 20-city Index, July Monthly Chg.	1.6%
Sep. 25th	Consumer Confidence Index, September	70.3
Sep. 25th	State Street Investor Confidence Index, September	86.9
Sep. 26th	New Home Sales, August	373,000
Sep. 27th	Durable Goods New Orders, Aug. Monthly Chg.	-13.2%
Sep. 27th	Real GDP, Q2f Quarterly Change SAAR	1.3%
Sep. 27th	GDP Price Index, Q2f Quarterly Change SAAR	1.6%
Sep. 27th	Initial Jobless Claims (week ending 9/22)	359,000
Sep. 27th	Pending Home Sales, Aug. Monthly Chg.	-2.6%
Sep. 27th	EIA Natural Gas Report, Wkly. Chg.	80 bcf
Sep. 28th	Personal Income, August Monthly Chg.	0.1%
Sep. 28th	Consumer Spending, August Monthly Chg.	0.5%
Sep. 28th	Core PCE Price Index, August Monthly Chg.	0.1%
Sep. 28th	Chicago PMI Business Barometer Index, Sept.	49.7
Sep. 28th	Consumer Sentiment Index, September	78.3

Bond Market Update

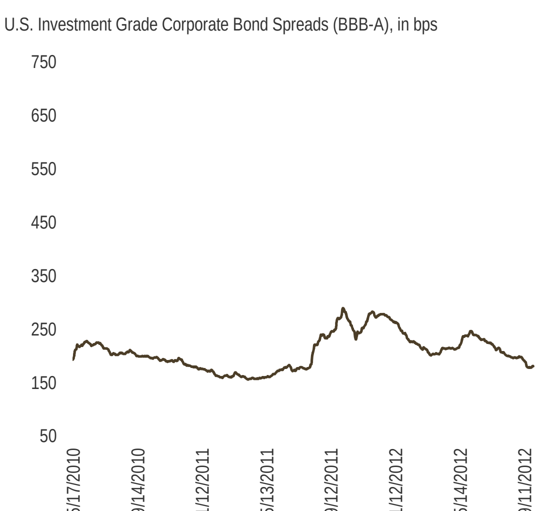
For the second straight week, U.S. Treasuries rallied as European leaders continued to struggle with the region's debt crisis and the Fed's recent dovish directive sparked worries about a replay of the 1970s recession. A joint statement from the German, Dutch and Finnish finance ministers cast doubt on whether the rest of the eurozone will bear any of the costs of providing support to Spain drove demand higher for safe-haven U.S. government debt. Although Friday's stress tests of Spanish banks showed expected capital shortfalls lower than anticipated levels, many strategists feel additional austerity measures are needed to meet the country's fiscal targets, which would push the economy deeper into a recession and increase contagion concerns. Separately, in a recent announcement Fed officials announced their intention to keep easing "if the outlook for the labor market does not improve substantially," and stated that an accommodative policy stance "will remain appropriate for a considerable time after the economic recovery strengthens." Amid the number of Fed speakers since the September 13 FOMC announcement, the most notable has been Minneapolis President Kocherlakota, who recently joined the dovish majority by supporting further stimulus. Notably, Mr. Kocherlakota had been a long time hawk, dissenting twice against easing in 2011, which suggests stimulating economic growth has become more imperative than inflation concerns.



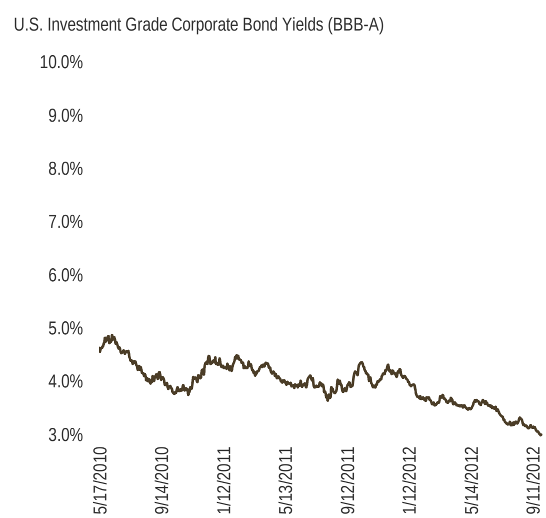
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	9.24.12	10.1.12	Change
3 month T-Bill	0.11%	0.10%	-0.01%
2-Year Treasury	0.27%	0.23%	-0.04%
5-Year Treasury	0.68%	0.62%	-0.06%
10-Year Treasury	1.77%	1.65%	-0.12%
30-Year Treasury	2.95%	2.82%	-0.13%

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



Source: Merrill Lynch



Source: Merrill Lynch

Stock Market Update

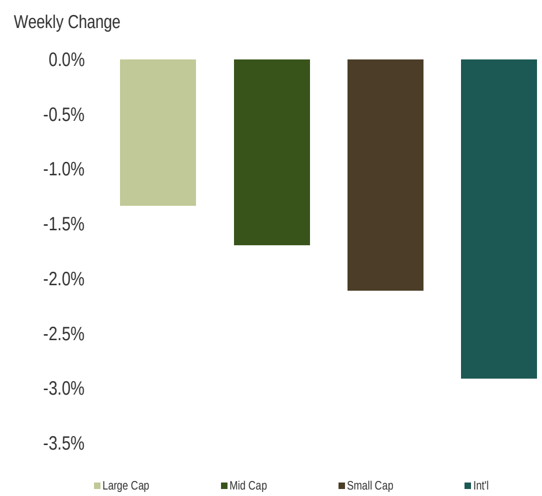
Stocks ended the week, month and quarter on a sour note. Mixed economic data and worries about global growth alongside the European debt crisis led most major markets down for the week ending September 28. The Dow Jones Industrial Average closed at 13437.13, down 1% since last Friday. The S&P 500 Index finished at 1440.67, off 1.3% for the week. The NASDAQ Composite Index ended the five-day trading period 2% lower at 3116.23. Despite this weakness, all three domestic indices were positive for the month of September and the third quarter.

European stocks saw their biggest weekly loss since June with the FTSE Index down 1.9%, the German DAX Index declining 3.2% and the CAC Index in France off 5%. Despite a positive market reaction on Thursday to news Spain's budget plan, which includes strong austerity measures, the IBEX 35 Index closed down 6.3% for the week as Spanish bond yields spiked above 6% for the first time in three weeks. In Asia, Japan's Nikkei Index fell 2.6%. Alternatively, the Shanghai Composite Index increased 2.9% for the five-day trading period after briefly falling below the 2000 level not seen in three years. The Shanghai Composite Index was up 1.5% for the month of September, its first monthly advance since April.

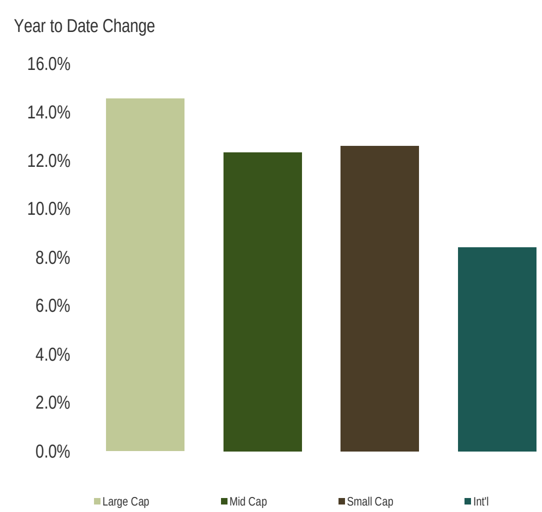
Corporate quarterly earnings reports this week included Discover Financial, and Research in Motion. Discover beat expectations as loans increased 4.2% and credit quality continued to improve. Revenues for the firm's payment services division increased 24% and net income rose 31% compared to last year's third quarter. Research in Motion, the maker of the Blackberry, reported revenues fell less than expected as the company continues to face competitive pressure from the Apple iPhone and other smart phones. The stock hit a record low earlier this week, but surged nearly 8% on Friday. In what could be a positive sign for the upcoming holiday season, Toys R Us announced this week that it will hire 13% more seasonal employees than last year.

Issue	9.24.12	10.1.12	Change
Dow Jones	13,579.47	13,437.13	-1.05%
S&P 500	1,460.15	1,440.67	-1.33%
NASDAQ	3,179.96	3,116.23	-2.00%
Russell 1000 Growth	680.97	670.30	-1.57%
S&P MidCap 400	1006.04	989.02	-1.69%
Russell 2000	855.51	837.45	-2.11%
MSCI EAFE	1,556.06	1,510.76	-2.91%
MSCI Small Cap	998.27	998.36	-1.49%

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.



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

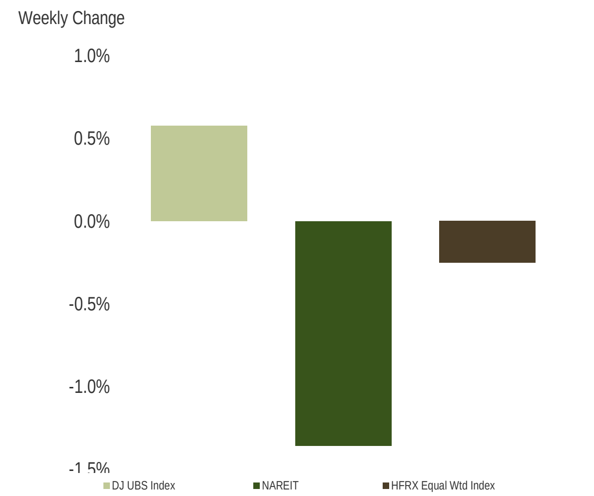


Source: Standard & Poor's, Russell Investment Company, MSCI

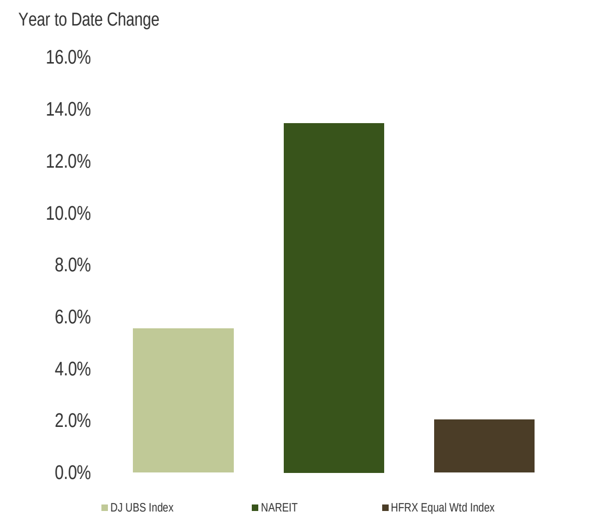
Alternative Investments Market Update

Rising tension between Iran and Israel caused oil prices to fluctuate for much of the week before ending down a significant 3.5% for the month. Supply concerns are the primary factor in the ongoing effect of Middle Eastern news on oil prices, but uneasy news out of Spain regarding an upcoming credit review also caused price movement. Brent crude is on track to rise nearly 14% in the third quarter after a 20% drop in Q2, while WTI crude is up 8% for the quarter after falling 17% in the second quarter. The North Sea maintenance issues are still a factor in Brent crude movement while U.S. inventories are slightly lower as supply is still rebuilding from the temporary shutdown in Gulf refineries from hurricane Isaac. Meanwhile, gold had the largest quarterly gain in over two years, rising 11% from July to September, marking the strongest price increase since Q2 2010. Mixed macroeconomic data from Europe and the U.S. continues to fuel rising gold prices.

The investable hedge fund composite index was up 1.71% for Q3, as of September 19, reports the Bank of America Merrill Lynch in its most recent Hedge Fund Monitor report. Long/short strategies were the best performers in Q3, adding 2.27%, followed by event-driven strategies, which were up 2.04%. The worst performers were market neutral funds, down 0.28%, and merger arbitrage funds, down 0.20%. Also, hedge funds trimmed their commodities exposure for the first time this month as prices dropped due to bad news flowing from China and Europe. According to FinAlternatives, hedge funds cut their net-long bets on 18 U.S. commodity futures and options by 1.7%. This drop followed two straight weeks of increased exposure that sent hedge fund holdings to a 16-month high. Much of the decline can be attributed to a 7.3% drop in bets on U.S. agricultural commodities, as soybean, cocoa and corn prices continue to fall.



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

Issue	Previous Week	Current[1]	Change
Gold	1,776.00	1,774.30	-0.10%
Crude Oil Futures	93.18	92.11	-1.15%
Copper	377.30	375.35	-0.52%
Sugar	20.07	20.42	1.74%
HFRX Equal Wtd. Strat. Index	1,122.67	1,119.85	-0.25%
HFRX Equity Hedge Index	1,035.31	1,032.19	-0.30%
HFRX Equity Market Neutral	930.11	929.31	-0.09%
HFRX Event Driven	1,373.96	1,372.43	-0.11%
HFRX Merger Arbitrage	1,505.62	1,501.46	-0.28%
Dow Jones UBS Commodity Index	147.65	148.51	0.58%
FTSE/NAREIT All REIT	159.01	156.85	-1.36%

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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