MainStreet Advisors
Financial Market Update

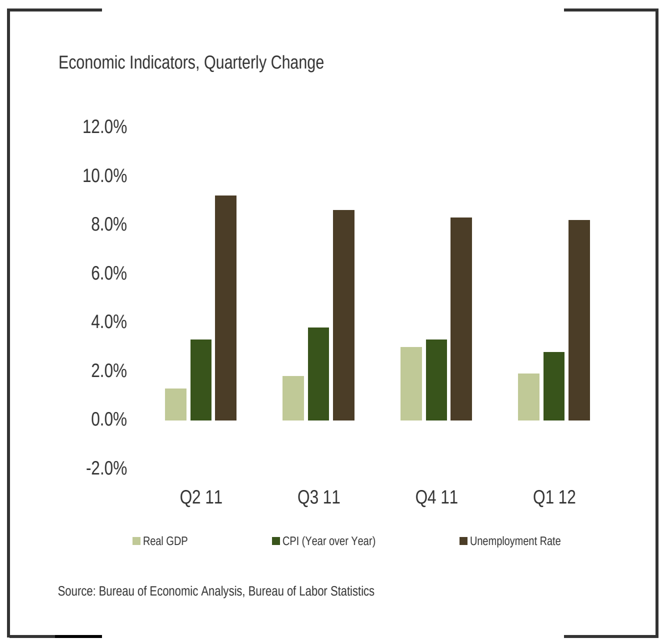
September 7, 2012

Economic Update

The big news this week came out of Europe as ECB president Mario Draghi outlined a plan to buy euro area government bonds. The ECB will engage in outright monetary transactions to “address severe distortions in government bond markets," which he said stem from "unfounded fears on the part of investors of the reversibility of the euro." There will be no limits on the size of the purchases, but governments who want the ECB to buy its bonds will be subject to a program of reforms and oversight. The move is one of the most significant we have seen yet in dealing with the sovereign debt crisis.

Initial jobless claims fell a sizeable 12,000 to 365,000 for the final week of August, but the monthly employment situation report was not as strong. The monthly jobs number came in less than expected for the month of August, increasing the likelihood of additional easing from the Fed. The market was projecting an increase of 125,000 but only 96,000 jobs were added during the month, according to the Labor Department. The private sector continues to be the only source of job growth adding 103,000 while the government shed a further 7,000 from the payrolls. The unemployment rate dropped from 8.3% down to 8.1%, but the improvement was in large part due to a sharp 368,000 person drop in the labor force.

The outlook for the manufacturing sector of the economy continued to deteriorate in August according to the Institute for Supply Management (ISM). The ISM’s purchasing manager’s index came in at 49.6 indicating slight contraction. Of more concern was the new orders component which contracted for the third straight month coming in at 47.1. The lack of new orders is having an obvious impact on production which fell 4.1 points to 47.2. In contrast to weakening manufacturing the much larger services side of the economy continued to show wide strength. The ISM’s non-manufacturing composite was up 1.1 points to 53.7 – the best monthly gain since May. The positive side of both reports was the strongest component of each was employment, which should indicate a stronger job market.



Sep. 4th	ISM Mfg. Index - Level, August	49.6
Sep. 4th	Construction Spending, July Monthly Chg.	-0.9%
Sep. 5th	MBA Purchase Applications Index, Wkly. Chg.	-2.5%
Sep. 5th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.4%
Sep. 6th	Initial Jobless Claims (week ending 9/1)	365,000
Sep. 6th	ISM Non-Mfg. Index, August	53.7
Sep. 6th	EIA Natural Gas Report, Wkly. Chg.	28 bcf
Sep. 6th	EIA Petroleum Status Report, Wkly. Chg.	-7.4M Barrels
Sep. 7th	Non-farm Payrolls, Aug. Monthly Chg.	96,000
Sep. 7th	Unemployment Rate, August	8.1%

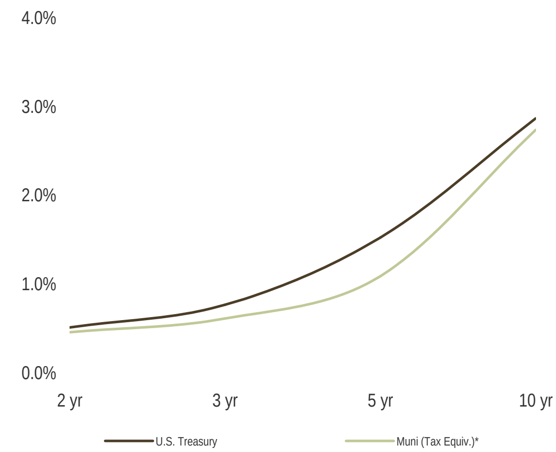
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Positive U.S. economic data coupled with an ECB outline for unlimited sovereign debt purchases roiled bond markets globally. In the U.S., investors generally moved out of bonds and into riskier asset classes. Treasuries slumped across the yield with longer duration bonds selling off the most. Investment grade paper followed suit while below investment grade joined the rally in low quality assets and moved higher. Even a disappointing August jobs number on Friday failed to bring investors back to high quality paper, although losses were trimmed for the week.

European fixed income investors followed their American counterparts in selling safety and buying risk. Although ECB President Mario Draghi did not formally announce details of the proposed ECB sovereign debt purchases until Thursday, investors traded on information that was leaked to the press all week. The plan calls for the unlimited purchase of sovereign debt of up to a three year maturity for nations willing to abide by austerity terms. Yields on Spanish and Italian bonds dropped to multi-month lows on the news, and investors were further heartened by reports that the ECB purchases will not have preferred creditor status over other investors.

Yield Curves

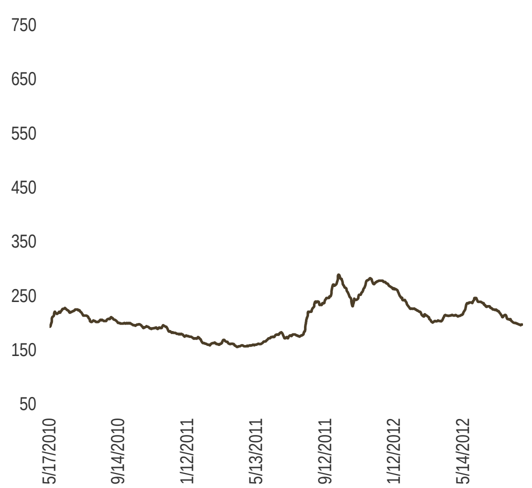


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	8.31.12	9.7.12	Change
3 month T-Bill	0.10%	0.11%	0.01%
2-Year Treasury	0.27%	0.25%	-0.02%
5-Year Treasury	0.66%	0.64%	-0.02%
10-Year Treasury	1.63%	1.67%	0.04%
30-Year Treasury	2.75%	2.81%	0.06%

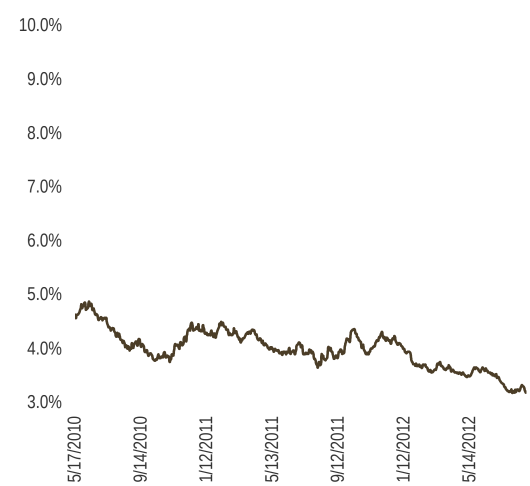
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

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

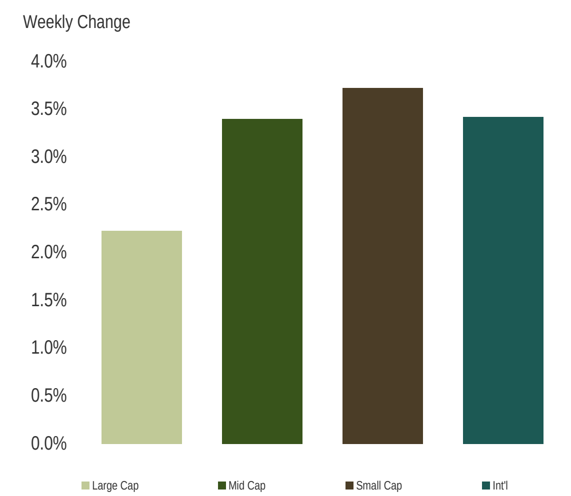
Domestic equity markets were positive across the board in this holiday-shortened week as the Dow Jones Industrial Average, the S&P 500 Index and the NASDAQ Composite Index all closed at multi-year highs on Thursday. While a weaker than expected jobs report on Friday initially led to market declines, all three indices were up for the day. In an attempt to restore stability into the Spanish and Italian debt markets, the European Central Bank announced on Thursday a plan to purchase short-term bonds of troubled eurozone countries, sending stock markets rallying across the globe. For the week, the Dow Jones Industrial Average increased 1.7%, closing out at 13306.64. The S&P 500 Index finished at 1437.92, up 2.2%. The NASDAQ Composite Index was the strongest domestic index, ending the week at 3136.42, 2.3% higher than last Friday.

In Europe, stocks increased 2.3% over the five-day trading period, the strongest weekly rise since early June. In China, news that the China manufacturing PMI slowed to 47.6 was followed later in the week by reports of major new infrastructure projects in China. The Chinese National Development and Reform Commission approved plans to build at least thirteen highway projects and other municipal and port developments as well as twenty-five new railroad projects over the next three to eight years. Economists believe the value of these plans approach 1 trillion yuan, or about 2.1% of the size of the Chinese economy. The Shanghai Composite Index increased 3.9% for the week.

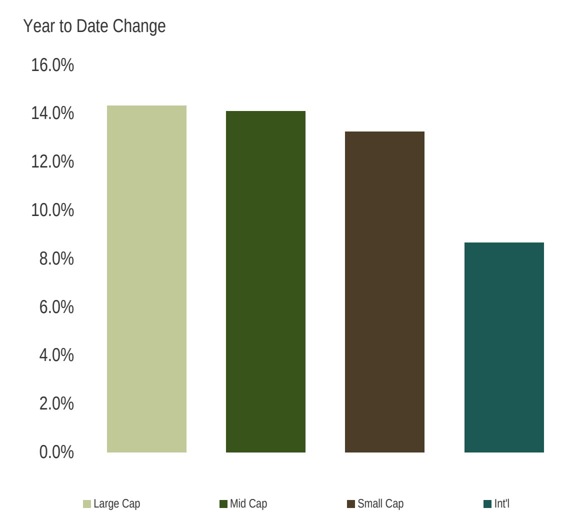
Apple hit another all-time high despite announcements this week from rivals of new smart phones and tablets. FedEx reduced its earnings per share guidance, blaming a soft global economy. Intel fell over 3% on Friday when the company lowered its third quarter revenue outlook due to weaker-than-expected processor demand, as computer manufacturers manage chip inventories in response to challenging economic conditions.

Issue	8.31.12	9.7.12	Change
Dow Jones	13,090.84	13,306.64	1.65%
S&P 500	1,406.57	1,437.92	2.23%
NASDAQ	3,066.96	3,136.42	2.26%
Russell 1000 Growth	657.92	669.77	1.80%
S&P MidCap 400	971.56	1004.6	3.40%
Russell 2000	812.01	842.27	3.73%
MSCI EAFE	1,463.96	1,514.00	3.42%
MSCI Small Cap	944.39	950.45	2.75%

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

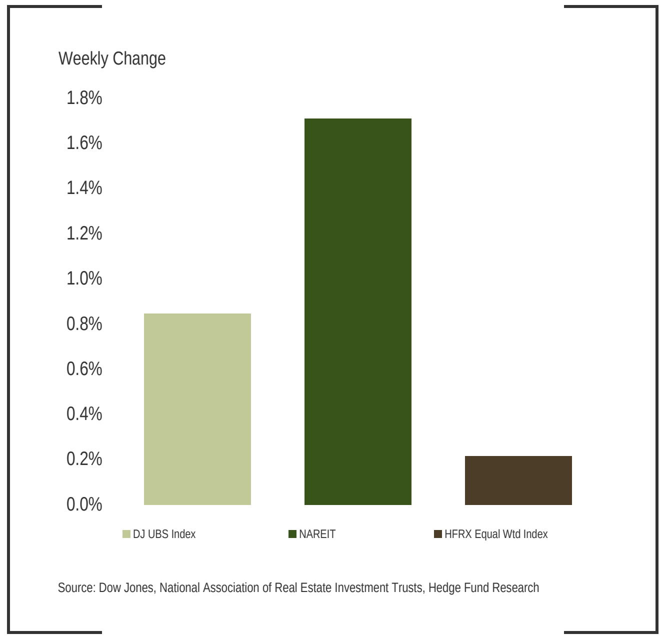
Extending a month-long rally, gold ended the week up 2.59%, settling at $1,738.70 an ounce, after the ECB announced its plans for a potentially unlimited bond-buying program on top the U.S. adding fewer jobs last month than forecasted, bolstering the notion the Fed might announce new stimulus measures. Gold prices hit record highs on the Fed's past methods for easing, triggering concerns about inflation and leading investors to stock up on hard assets like precious metals.

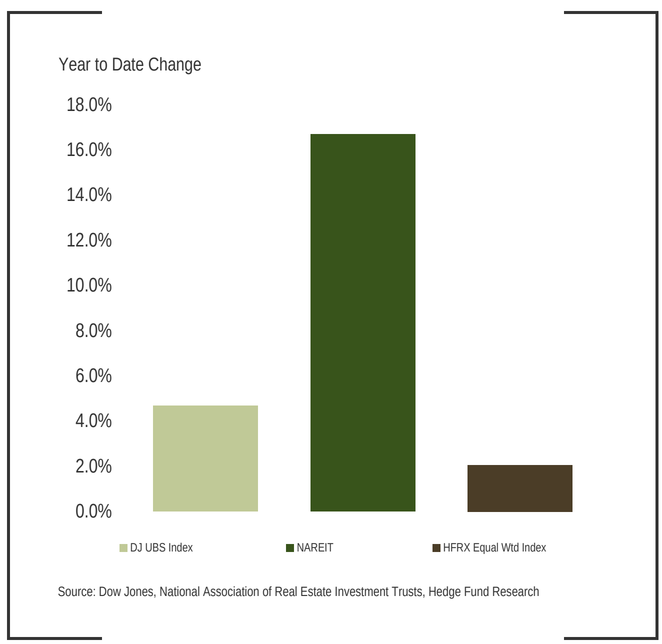
Oil prices also rose after a disappointing jobs report weakened the dollar and reinforced expectations for stimulus from the Fed. For the week, crude was up 1.99%, closing at $96.32 a barrel. Oil prices received a lift from expectations that the jobs report increases the likelihood the Fed's two-day policy meeting next week will result in a third round of quantitative easing, or QE3. Crude prices typically rise on signs of central bank action as investors look to physical assets such as oil, copper or gold for protection against a weakening dollar. Prices rallied sharply following the Fed's initiation of QE2 in late 2010.

Hedge funds gained last month as global stocks rallied on speculation the Fed may take additional steps to boost the economy in addition to Europe moving closer to containing its debt crisis. According to data compiled by Bloomberg, hedge funds climbed 0.7% in August, as long-short equity, multi-strategy and global macro funds all posted gains. However, after significantly underperforming the broader-stock market for yet another month, investors are showing signs that their patience is wearing thin as redemptions have become a noticeable trend over the past three months, which have seen a net of $15.56 billion in outflows from the $2.5 trillion industry. The funds saw redemptions of $11.81 billion for July, the most recent month for which data is available, with fixed income the only strategy to see inflows, according to eVestment. Fund flows for the year, though, remain positive at $9.93 billion. Many analysts believe the recent flight is reflective of difficulties the industry has seen in a highly correlated market driven far more by the latest news out of Europe and not by individual company performance.

Issue	Previous Week	Current[1]	Change
Gold	1,694.80	1,738.70	2.59%
Crude Oil Futures	94.44	96.32	1.99%
Copper	345.55	364.50	5.48%
Sugar	19.78	19.38	-2.02%
HFRX Equal Wtd. Strat. Index	1,117.53	1,119.93	0.21%
HFRX Equity Hedge Index	1,025.59	1,033.39	0.76%
HFRX Equity Market Neutral	929.47	932.86	0.36%
HFRX Event Driven	1,351.62	1,366.73	1.12%
HFRX Merger Arbitrage	1,509.65	1,503.06	-0.44%
Dow Jones UBS Commodity Index	146.03	147.26	0.84%
FTSE/NAREIT All REIT	158.59	161.30	1.71%

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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MAINSTREET ADVISORS™

120 North LaSalle Street, 37th Floor
Chicago, Illinois 60602
312.223.0270 direct
312.223.0276 fax
www.mainstreetadv.com