MainStreet Advisors
Financial Market Update

October 5, 2012
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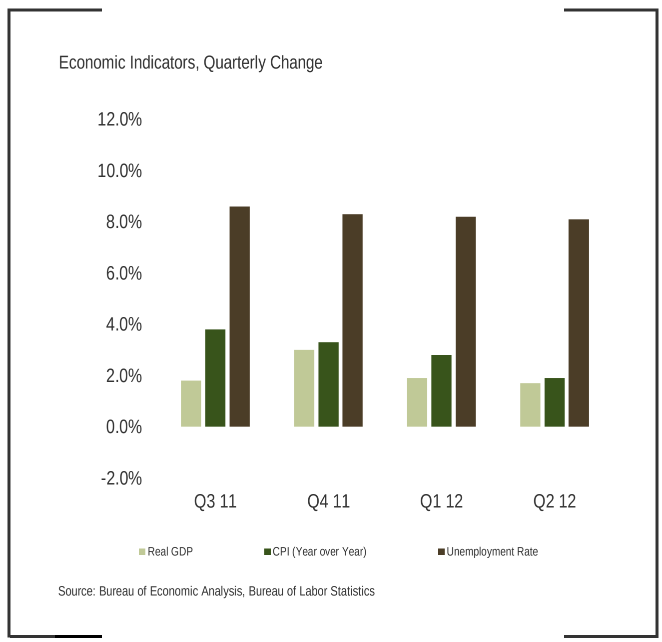
Economic Update

An unexpected drop in the unemployment numbers took the economic headlines on Friday as analysts wonder how credible the 0.3% drop truly is. Some say the figure is a “statistical fluke” but motor vehicle sales, which have a strong connection to job numbers, are consistent with this report as is the household jobs survey, which shows a jump of 873,000 jobs in September after being flat for the past three months. The unemployment rate now stands at 7.8%, and vehicle sales hit a 15 million annual rate for the first time since March 2008, a very promising jobs growth indicator as consumers tend to buy cars when they are employed.

The September FOMC minutes were released this week with a focus on QE3. Fed economists saw additional quantitative easing as a positive for the economy; it will keep rates low and in turn boost stock and home prices. Some economists disagree with this plan and believe the Fed is out of options for additional stimulus, yet none seem to disagree that the headwinds we have faced the past few years still linger. According to the notes from the meeting, economic growth expectations point to a slow 2013 followed by an improving 2014, with unemployment still modestly elevated and GDP growth still lagging slightly.

New factory orders dropped 5.2% in August, but this can be fully attributed to aircraft orders, which make this number extremely volatile and generally unreliable when not broken down. If aircraft orders are excluded the August number was actually a positive 0.7%. This indicator is notoriously volatile, but important, and this past report, as well as pre-indicators such as the ISM report and the Philly Fed report, point to a stronger September. Also, the ISM manufacturing survey moved up to 51.5 in September and the non-manufacturing bounced to 57.7, a significant four-point jump. These surveys point to healthy new orders growth, as even export orders moved higher.



Oct. 1st	ISM Mfg. Index - Level, September	51.5
Oct. 1st	Construction Spending, Aug. Monthly Chg.	-0.6%
Oct. 2nd	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.3%
Oct. 3rd	MBA Purchase Applications Index, Wkly. Chg.	16.6%
Oct. 3rd	ISM Non-Mfg. Index, September	55.1
Oct. 3rd	EIA Petroleum Status Report, Wkly. Chg.	-0.5M Barrels
Oct. 4th	Initial Jobless Claims (week ending 9/29)	367,000
Oct. 4th	Factory Orders, Aug. Monthly Chg.	-5.2%
Oct. 4th	EIA Natural Gas Report, Wkly. Chg.	77 bcf
Oct. 5th	Non-farm Payrolls, Sep. Monthly Chg.	114,000
Oct. 5th	Unemployment Rate, September	7.8%
Oct. 5th	Consumer Credit, August Monthly Change	18.1B

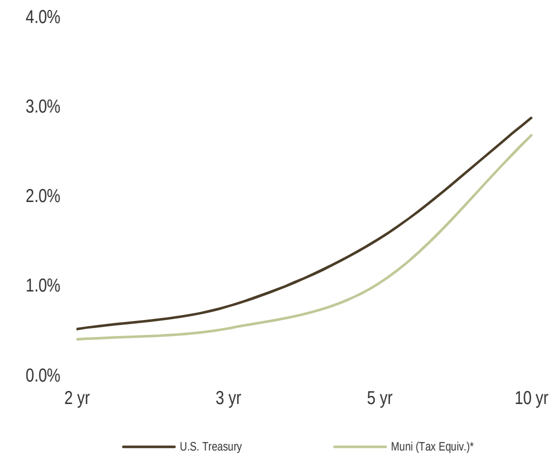
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.

Bond Market Update

Positive jobs data from Thursday's ADP report and Friday's Bureau of Labor Statistics report sent U.S. Treasury yields higher at week's end. The softening in bond prices was directly tied to future expectations of the Federal Reserve's latest monetary easing program. As recently as two weeks ago, the Fed had indicated they planned an infinite bond purchasing program to bring the unemployment rate down from the then 8.1% to something closer to 7%. With Friday's labor report showing an unemployment rate at 7.8%, Treasury and mortgage bond investors trimmed positions as it now appears demand from the Fed will fall far short of what was initially expected.

European peripheral sovereign bonds extended recent gains as it appears ECB bond purchases for nations requesting aid is coming closer to fruition. Spain and Portuguese bonds benefited with the Portuguese 2-year note yield dropping to a multi-year low while safe haven German bund sold off. Investors moving toward riskier debt look to gain further tail winds by Monday's inauguration of the European Stability Mechanism (ESM). The ESM is the permanent facility established to aid troubled EU members and is viewed as the centerpiece to combating the European debt crisis.

Yield Curves

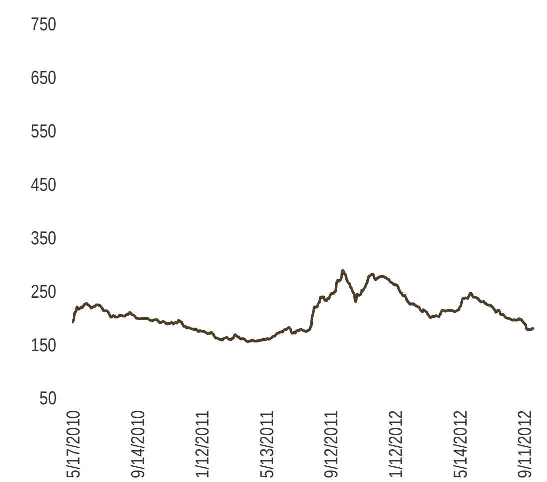


Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	9.28.12	10.5.12	Change
3 month T-Bill	0.10%	0.11%	0.01%
2-Year Treasury	0.23%	0.27%	0.04%
5-Year Treasury	0.62%	0.67%	0.05%
10-Year Treasury	1.65%	1.75%	0.10%
30-Year Treasury	2.82%	2.96%	0.14%

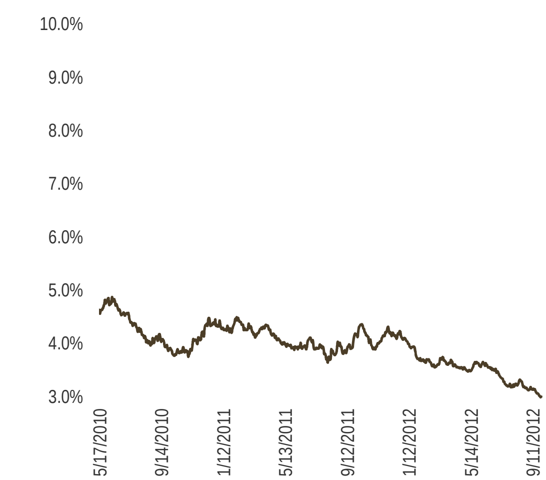
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.

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



Source: Merrill Lynch

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



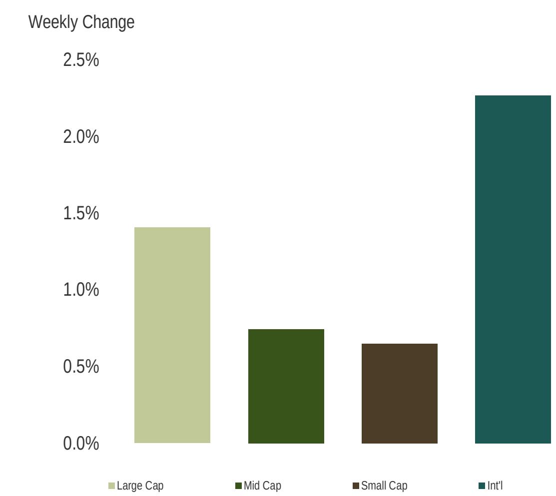
Source: Merrill Lynch

Stock Market Update

The equity markets began the fourth quarter where the third quarter left off. Several indices have continued the uptrend with most global markets rising over 1.00% for the week. The Dow Jones Industrial Average closed at 13,610.15, up 173 points for the week, or up 1.29%. The broader S&P 500 Index ended the week up 1.41% to close at 1,460.93, while the NASDAQ Composite finished higher by 20 points, or up 0.64% to close the week out at 3,136.19.

The European markets finished positive four out of the five trading days to start the fourth quarter. The most significant movement came on Friday as the European markets rallied on the better than expected payroll numbers out of the U.S. showing job growth of 114,000 and a revised August number of 142,000 from an original estimate of 96,000. The MSCI EAFE Index finished the week higher by 2.15%, and the MSCI Emerging Market Index finished higher by 1.32%.

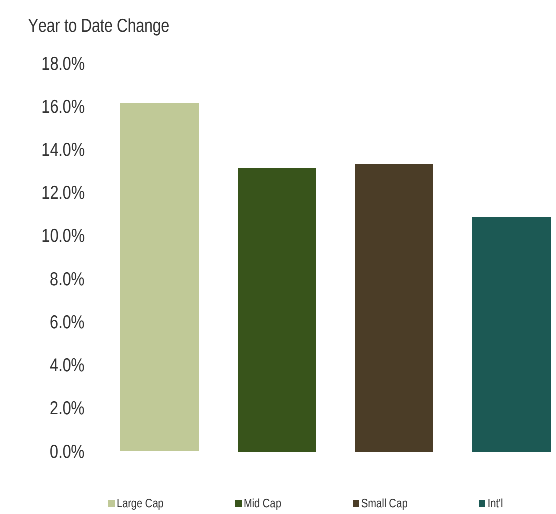
The social media industry took another hit today as shares of Zynga (ZNGA) continued to tumble. The company reduced its full year guidance back in July of this year, and at the close of Thursday announced another reduction to its guidance. The company lowered the estimated EBITDA expectations to between $147 million to $162 million from the previous $180 million to $250 million. The news also sent shares of Facebook (FB) lower as the company derives about 10% of its revenue from Zynga. Shares of Zynga finished the day at 2.47, lower by 12.26% on the news.



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

Issue	9.28.12	10.5.12	Change
Dow Jones	13,437.13	13,610.15	1.29%
S&P 500	1,440.67	1,460.93	1.41%
NASDAQ	3,116.23	3,136.19	0.64%
Russell 1000 Growth	670.30	678.13	1.17%
S&P MidCap 400	989.02	996.36	0.74%
Russell 2000	837.45	842.86	0.65%
MSCI EAFE	1,510.76	1,544.98	2.27%
MSCI Small Cap	998.36	1,005.52	1.70%

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.



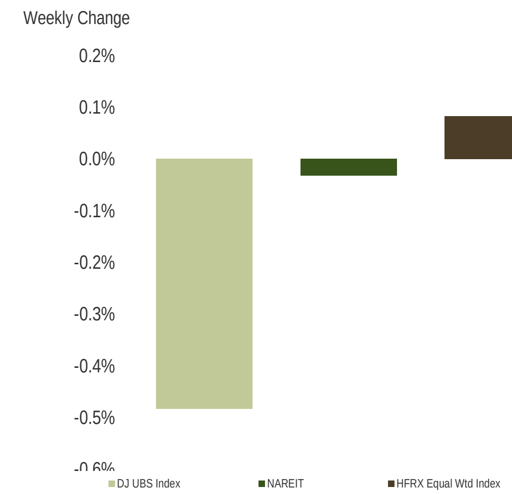
Source: Standard & Poor's, Russell Investment Company, MSCI

Alternative Investments Market Update

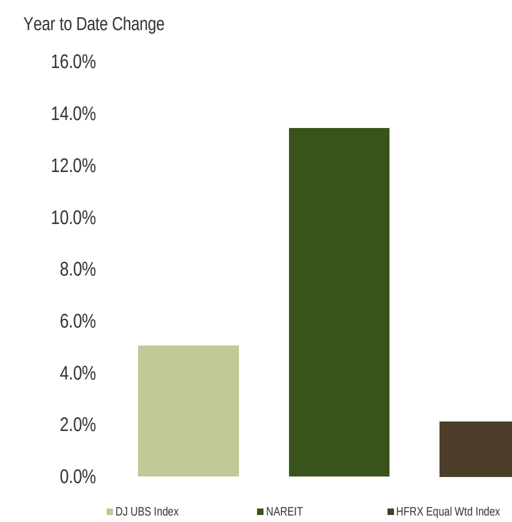
Gold slipped from an 11-month high this week as the metal's appeal as an inflation hedge decreased after a surprise drop to the U.S. unemployment rate. For the week though, gold gained 0.55% to close at $1,784 per ounce. The precious metal has been thriving on recent monetary easing measures, however, the positive jobs report put what many analysts believe to be an "end to the idea that quantitative easing would last forever."

Despite the unexpected decline in the unemployment rate, crude oil dropped for its third straight week, losing 2.40% to settle at $89.90 a gallon, on signals that supply is exceeding demand. Crude prices reached their longest run of weekly decreases since June after the Energy Department reported this week that U.S. crude output rose to 6.52 million barrels a day last week, the most since December 1996. Also this week, a fire broke out at Exxon Mobil Corp.'s (XOM) 584,000 barrel a day Baytown refinery-- just one of the latest problems to plague the U.S. refining sector. The industry is in the midst of its seasonal maintenance period, but unplanned outages, particularly on the West Coast, have cut the number of refineries turning oil into gasoline, diesel and other fuel products.

Buoyed by a rallying stock market, hedge funds climbed 2.6% in Q3, bringing the industry to 5.1% on the year. These gains still trailed that of the S&P 500, which added 2.25% last month - compared with 0.8% for hedge funds - and is now up 16.43% so far this year. Stock funds were the best performing strategy in September, gaining 1.34% and pushing their yearly returns to 5.8%. This is good news for investors as last year stock-focused funds battled to generate gains as volatile global markets saw the average fund lose 6.5%. Boosted by successful bets in the mortgage-backed securities and "junk" bond markets, credit-focused funds have been the best performing strategy so far this year, up 8.7%. Credit-focused funds gained 3.8% in Q3 and, according to eVestment|HFN, total credit fund capital hit an all-time high through August with almost $758 billion in assets.



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	1,774.30	1,784.00	0.55%
Crude Oil Futures	92.11	89.90	-2.40%
Copper	375.35	375.90	0.15%
Sugar	20.42	21.54	5.48%
HFRX Equal Wtd. Strat. Index	1,119.85	1,120.78	0.08%
HFRX Equity Hedge Index	1,032.19	1,038.08	0.57%
HFRX Equity Market Neutral	929.31	927.83	-0.16%
HFRX Event Driven	1,372.43	1,372.07	-0.03%
HFRX Merger Arbitrage	1,501.46	1,503.32	0.12%
Dow Jones UBS Commodity Index	148.51	147.79	-0.48%
FTSE/NAREIT All REIT	156.85	156.80	-0.03%

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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