MainStreet Advisors
Financial Market Update

October 19, 2012

Economic Update

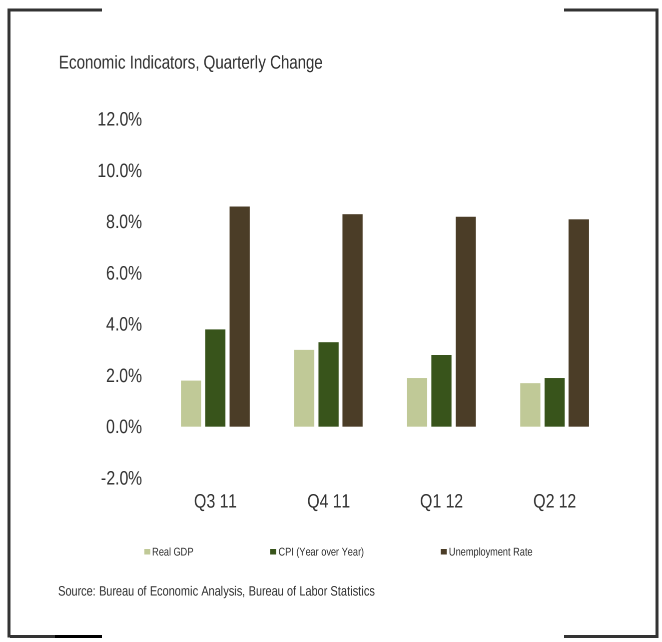
Higher gas prices were yet again behind a 0.6% jump in headline CPI inflation last month. The energy component of CPI surged 4.5% after increasing 5.6% in August. Stripping out food and energy, core CPI rose a modest 0.1%. Year-over-year overall CPI inflation rose to 2.0%, up from 1.7% in August. Inflation at the producer level also increased as energy pushed the headline PPI up 1.1% following a 1.7% jump in August. The core rate, which excludes food and energy, was unchanged. Gasoline and oil prices have been easing a little so far this month, which may provide some relief to October's inflation numbers.

A more optimistic outlook from the consumer seems to have boosted spending in September. Retail sales were up an impressive 1.1% during the month after gaining 1.2% in August. Gasoline sales were strong climbing 2.5%, but core components showed widespread strength as well. Sales of the new Apple iPhone helped lead to a 4.5% surge in the electronics & appliance stores component. The numbers are encouraging and, if consumer confidence is any indicator, should continue to impress in October.

The housing sector continues to show signs of a stronger-than-expected comeback. Housing starts rose to 872,000 last month–a significant improvement from August's 750,000 and 34.8% higher than last year. Housing permits were also impressive, up 11.6% in September to an annual pace of 894,000, 45.1% higher than a year ago. Housing is taking the lead in the economic recovery, yet still has room for further improvement. Existing home sales had a mixed report as the month-over-month sales figure fell by 1.7% in September but was up 11% from this time last year. Currently supply is relatively tight as highlighted by the median amount of days a house stays on the market; this is a positive factor for prices in the coming months but a detriment to home sales. However, this tight supply environment should increase new home construction as the year comes to a close.

Initial jobless claims showed an increase in the week ending October 12 of nearly 40,000 after dropping 27,000 in the prior week. The four-week moving average, a more accurate indicator, looks significantly better. The average moved up by just 1,000 to 365,000, and was 10,000 lower than the data one month ago. Continuing unemployment claims data is showing improvement as well with the four-week average coming in at 3.27 million, marking a five-month low.

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.

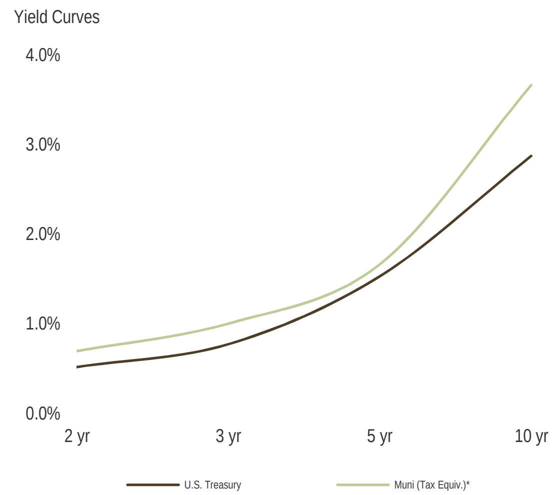


Oct. 15th	Retail Sales, Sep. Monthly Chg.	1.1%
Oct. 15th	Empire State Mfg Survey, October	-6.16
Oct. 15th	Business Inventories, Aug. Monthly Chg.	0.6%
Oct. 16th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.0%
Oct. 16th	Consumer Price Index, September Monthly Chg.	0.6%
Oct. 16th	Industrial Production, Sep. Monthly Chg.	0.4%
Oct. 16th	Housing Market Index, October	41.0
Oct. 17th	MBA Purchase Applications Index, Wkly. Chg.	-4.2%
Oct. 17th	Housing Starts, September	872,000
Oct. 18th	Initial Jobless Claims (week ending 10/13)	388,000
Oct. 18th	Philidelphia Fed Survey, October	5.7
Oct. 18th	Leading Indicators, Sep. Monthly Chg.	0.6%
Oct. 18th	EIA Natural Gas Report, Wkly. Chg.	51 bcf
Oct. 19th	Existing Home Sales, September SAAR	4.75M

Bond Market Update

Despite a rally on Friday driven by less than encouraging news from the European Union summit, U.S Treasuries fell for the week, with the yield on the 10-year note approximately 0.10% higher than last week. In a sign that Treasuries remain at elevated valuation levels, the "term-premium" -- a pricing model created by the Federal Reserve that includes expectations for interest rates, growth and inflation -- closed at -0.81%, significantly lower than the ten-year average of 0.44%. A negative reading indicates the market participants' willingness to accept yields below levels considered fair value.

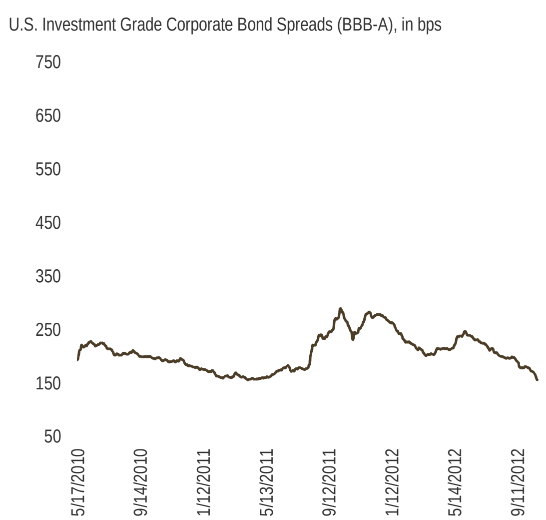
Meanwhile, market volatility increased amid mixed economic data. Earlier in the week, investor sentiment improved as economic data out of the U.S. and China were better than expected and Spain was spared from a downgrade to below investment grade by Moody's. By the end of the week, sentiment waned after a report at the conclusion of a two-day European Union summit indicated little progress in the resolution of the region's ongoing debt crisis. Although eurozone leaders gave a clearer timetable to becoming a banking union, details regarding the resolution to the crisis remain unclear and leaders from Germany and France have yet to agree on several key measures. Despite a deadline of January 1, 2013, German Chancellor Angela Merkel questioned the probability of having the ECB become the eurozone's main financial supervisor by this time.



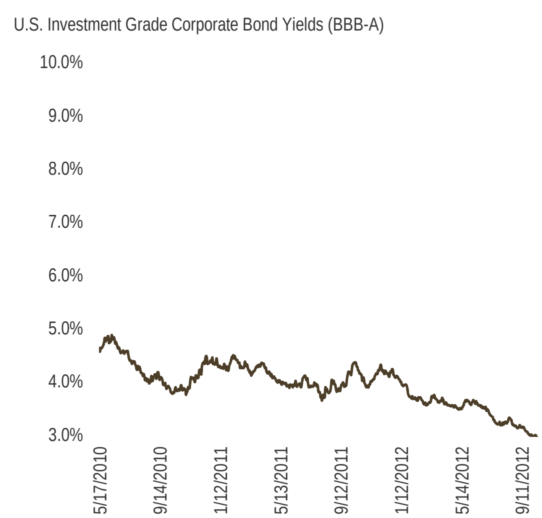
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	10.12.12	10.19.12	Change
3 month T-Bill	0.11%	0.10%	-0.01%
2-Year Treasury	0.27%	0.30%	0.03%
5-Year Treasury	0.67%	0.77%	0.10%
10-Year Treasury	1.69%	1.79%	0.10%
30-Year Treasury	2.83%	2.94%	0.11%

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



Source: Merrill Lynch



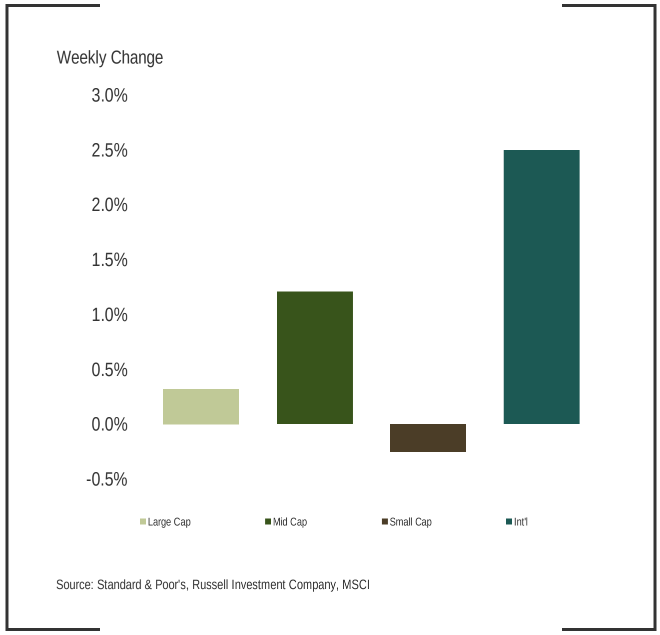
Source: Merrill Lynch

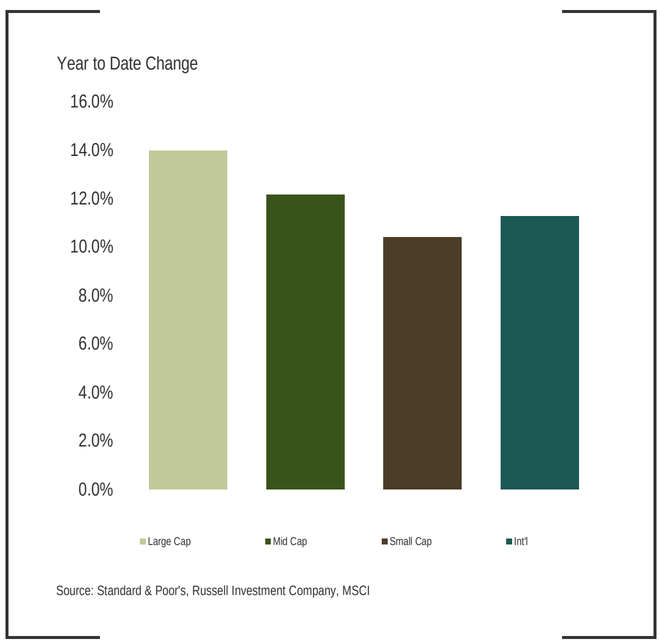
Stock Market Update

With the sell-off in stocks Thursday and Friday on weak earnings reports, market performance was mixed for the week. Stocks started the week off strong, rebounding from recent declines, on news of strong retail sales in the U.S. and Moody's decision to affirm Spain's credit rating. Investor sentiment turned sour on Thursday and continued on Friday as the Dow Jones Industrial Average fell 205 points to close at 13328.85, flat compared to last week. The S&P 500 Index finished at 1433.19, up only 0.3% over the five-day trading period. The NASDAQ Composite Index was the worst performer, down 1.3% to 3005.62 for the week.

European stocks as measured by the Stoxx Europe 600 rose to a 16-month high on Thursday, only to fall back nearly 1% of Friday on weakness here at home. Japan's Nikkei Index posted its best weekly performance of the year after declining 3% last week. While China's economy grew by only 7.4% in the third quarter, a slowdown from 7.6% in the second quarter, analysts believe recent positive economic data, including retail sales growth of 14.2% and an increase in industrial production of 9.2%, point to a rebound in GDP growth this quarter. The Shanghai Composite Index increased 1% for the week.

As of Friday, 114 companies, or 23% of the S&P 500 Index, have reported earnings for the most recent quarter. Total earnings declined 2.8% from the same period last year, with 55% of the companies reporting earnings ahead of expectations. This is below the 70% average of the last four quarters. Total revenues increased 1.3% from the same period last year, but only 34% of the companies have posted revenue above estimates. Of note were positive earnings surprises from Citigroup, Goldman Sachs, Ebay, Verizon, Johnson & Johnson, BlackRock and Morgan Stanley. Companies that either reported earnings or revenue below expectations or guided future earnings lower included Intel, Google, McDonald's, IBM, Abbott, Chipotle and General Electric.





Issue	10.12.12	10.19.12	Change
Dow Jones	13,328.85	13,343.51	0.11%
S&P 500	1,428.59	1,433.19	0.32%
NASDAQ	3,044.11	3,005.62	-1.26%
Russell 1000 Growth	661.42	657.68	-0.57%
S&P MidCap 400	975.61	987.4	1.21%
Russell 2000	823.09	821	-0.25%
MSCI EAFE	1,512.69	1,550.49	2.50%
MSCI Small Cap	995.95	1,013.36	2.30%

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.

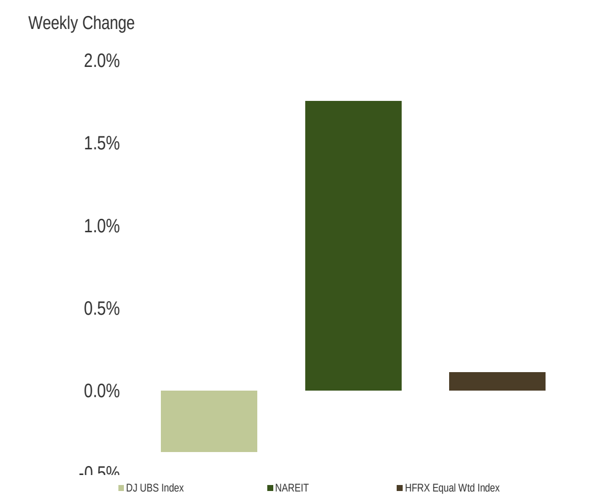
Alternative Investments Market Update

TransCanada Corp (TRP) said this week that it has shut down its major pipeline for moving Canadian crude oil from Alberta to the central United States after detecting a "small anomaly" on the pipe, lifting benchmark oil prices well off weekly lows. TransCanada, the country's largest pipeline company, said the 590,000-barrel-a-day Keystone pipeline is expected to be shut for three days as crews investigate the pipe, causing some Canadian crude supplies to back up. The pipeline has the capacity to transport a quarter of Canada's crude oil exports to the United States, so outages can have big impacts on markets on both sides of the border. For the week, crude oil slipped 1.65%, or $1.51, to close at $90.06 a barrel.
Gold dropped nearly $34 an ounce this week, losing 1.89% – the metal's second consecutive weekly loss – on disappointing corporate earnings, U.S. economic data and the latest European summit driving gains for the dollar. Prices have dropped 3.2% in two weeks on concern that global central banks would reduce stimulus measures, curbing demand for the metal as a hedge against inflation. Government reports this week showed China's industrial production, retail sales and fixed-asset investment accelerated in September, while U.S. housing starts jumped to a four-year high. Many analysts are also forecasting even further declines for gold next week, noting the change in trader attitude and a bearish short-term momentum for the metal.

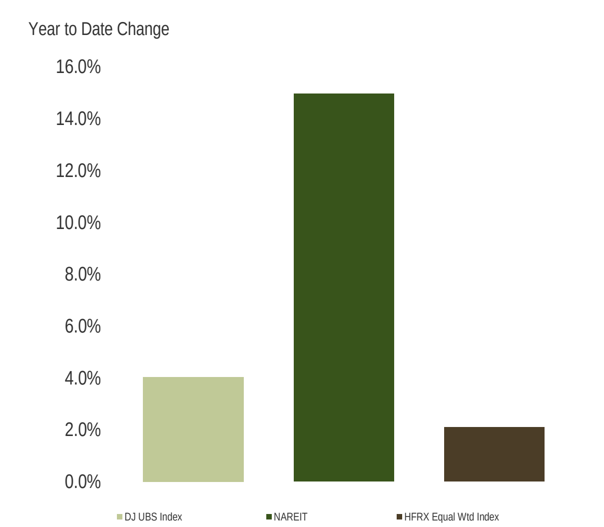
Total hedge fund assets hit a record high on strong Q3 performance – the third consecutive quarter of net inflows – and surpassed the previous record set in Q1 of 2012, according to data released this week by Hedge Fund Research (HFR). Hedge fund capital increased by 3.6% reaching $2.19 trillion as of the end of Q3, an increase of $80 billion during the quarter and $183 billion year-to-date. HFR went on to note that investors allocated $10.6 billion of net new capital to hedge funds in Q3, bringing year-to-date net inflows to $31 billion. Despite these figures, however, if inflows continue at their current pace through the end of the year, 2012 will have the lowest inflow total since 2009 when investors withdrew $131 billion from the hedge fund industry.

Issue	Previous Week	Current[1]	Change
Gold	1,755.80	1,722.70	-1.89%
Crude Oil Futures	91.57	90.06	-1.65%
Copper	369.35	363.00	-1.72%
Sugar	20.05	20.23	0.90%
HFRX Equal Wtd. Strat. Index	1,119.25	1,120.48	0.11%
HFRX Equity Hedge Index	1,038.86	1,045.93	0.68%
HFRX Equity Market Neutral	930.22	929.16	-0.11%
HFRX Event Driven	1,369.51	1,373.60	0.30%
HFRX Merger Arbitrage	1,503.81	1,504.63	0.05%
Dow Jones UBS Commodity Index	146.92	146.37	-0.37%
FTSE/NAREIT All REIT	156.17	158.91	1.75%

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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