

MainStreet Advisors Financial Market Update

November 2, 2012
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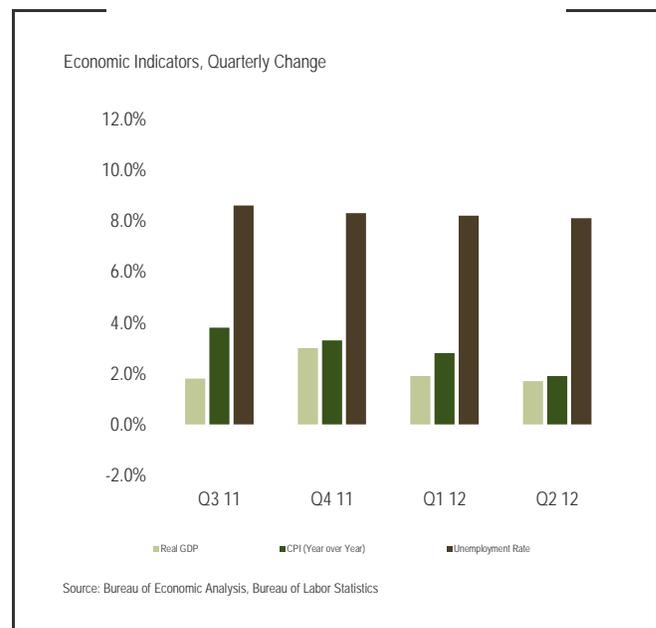
Economic Update

The U.S. employment report marked the third consecutive month that jobs data was not only positive, but beat analysts' expectations significantly. Payroll growth jumped 171,000 in October, easily surpassing the 125,000 consensus estimate. This boost was fueled by growth in the private sector, most notably the professional services, retail and healthcare sectors. The government sector lost a small number of jobs for the month after growing in September. As encouraging as the jobs report was, the unemployment rate managed to tick up by 0.1% to 7.9%, simply the result of more people entering the job force. More positive employment news came in on Thursday with jobless claims dropping by 9,000 in the week ending October 27 to settle at 363,000, pulling the 4-week moving average down by 1,500. U.S. companies are hiring despite worldwide growth concerns, and as long as other factors, such as housing, continue to improve we could start seeing more dramatic economic growth domestically.

Personal income increased 0.4% in September after a 0.1% bump in August. The September figure is positive but headline inflation limited the gain. Consumer spending jumped 0.8%, aided by solid auto sales. Despite inflation offsetting the increase in personal income, consumer spending increases show the average spender is more confident and comfortable with the state of their financial situation. However, this comes with a caveat; the savings rate dropped from 3.7% to 3.3% in September as personal expenditures grew faster than personal income. This figure is down from 4.4% in June. The conclusion here is that although consumers are spending more, a positive sign for the economy, they are also reaching into savings more to meet those spending increases, which is not an encouraging sign. There is not yet cause to worry, however, as every economic indicator has some degree of fluctuation that produces data which may not always be representative of the current situation. Should this drop become a trend for this indicator, it could hurt the recovery as a pattern of lesser savings translates to increased debt load, an undoubtedly negative force on the economy.

Finally, the ISM manufacturing data came in showing mild growth in October, rising to 51.7 from 51.5. Looking behind that figure we saw the new orders index rising nearly two full points in September, indicating improvement in coming manufacturing reports. Although modest, this increase is progress and signals coming improvement throughout the sector.

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.

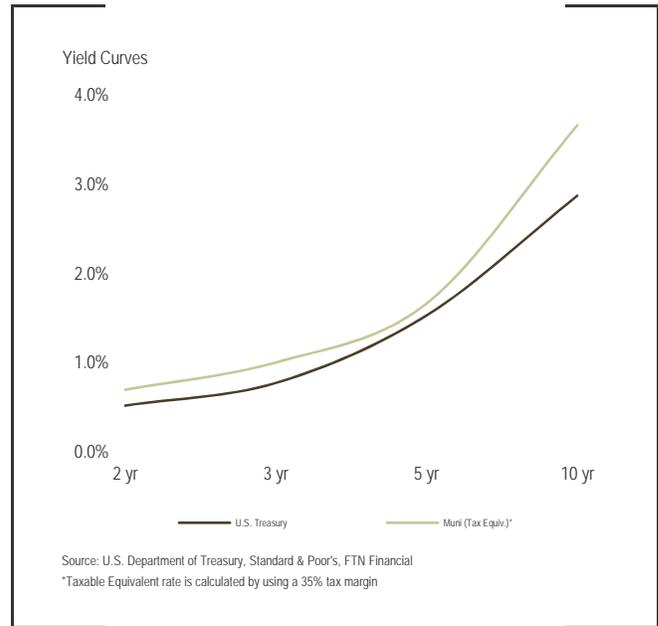


Oct. 29 th	Personal Income, Sep. Monthly Chg.	0.4%
Oct. 29 th	Consumer Spending, Sep. Monthly Chg.	0.8%
Oct. 29 th	Core PCE Price Index, Sep. Monthly Chg.	0.1%
Oct. 30 th	ICSC-Goldman Same Store Sales, Wkly. Chg.	0.5%
Oct. 30 th	S&P/Case-Shiller 20-city Index, Aug. Monthly Chg.	0.5%
Oct. 30 th	State Street Investor Confidence Index, October	80.6
Oct. 31 st	MBA Purchase Applications Index, Wkly. Chg.	-4.8%
Oct. 31 st	Employment Cost Index, Q3 Quarterly Change	0.4%
Oct. 31 st	Chicago PMI Business Barometer Index, October	49.9
Nov. 1 st	Initial Jobless Claims (week ending 10/27)	363,000
Nov. 1 st	ISM Mfg. Index - Level, October	51.7
Nov. 1 st	Consumer Confidence Index, October	72.2
Nov. 1 st	Construction Spending, Sep. Monthly Chg.	0.6%
Nov. 2 nd	Non-farm Payrolls, Oct. Monthly Chg.	171,000
Nov. 2 nd	Unemployment Rate, October	7.9%
Nov. 2 nd	Factory Orders, Sep. Monthly Chg.	4.8%

Bond Market Update

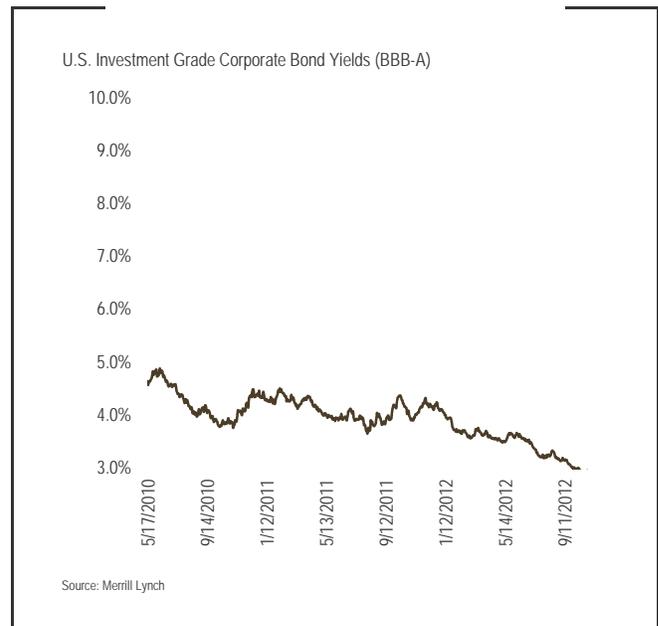
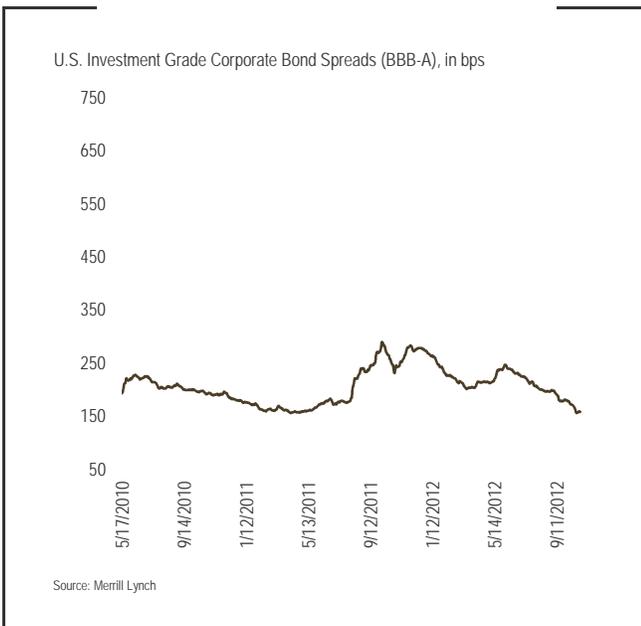
Bond investors saw a shorter trading session this week as the east coast was hit by devastating Hurricane Sandy. After the markets reopened on Wednesday, Treasuries continued to experience small intraday fluctuations caused by mixed economic data. Better than expected ISM and employment reports prompted investors to sell bonds in favor of stocks. However, this trend was countered by slower growth in wages, consumer confidence and Chicago PMI, resulting in the benchmark 10-Year note remaining unchanged for the week. According to Bloomberg's survey of financial market companies, the benchmark rate is expected to climb to 1.92% by the end of March and 2.06% by the end of June 2013.

Corporate debt issuers were particularly active this week as many corporations tried to take advantage of the low rate environment before the next week's elections. Microsoft Corporation and Verizon Communications were the leading issuers of corporate bonds with \$2.25 billion and \$4.50 billion offered respectively. In Europe, Spain is still hesitant to use aid offered by the ECB to buy their government bonds as this would impose a greater control on country's budget. However, investors perceive this as inevitable with the 10-year bond currently trading at 5.65%, well above a record high 7.75% on July 25.



Issue	10.26.12	11.2.12	Change
3 month T-Bill	0.11%	0.09%	-0.02%
2-Year Treasury	0.31%	0.28%	-0.03%
5-Year Treasury	0.82%	0.73%	-0.09%
10-Year Treasury	1.86%	1.75%	-0.11%
30-Year Treasury	2.98%	2.91%	-0.07%

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



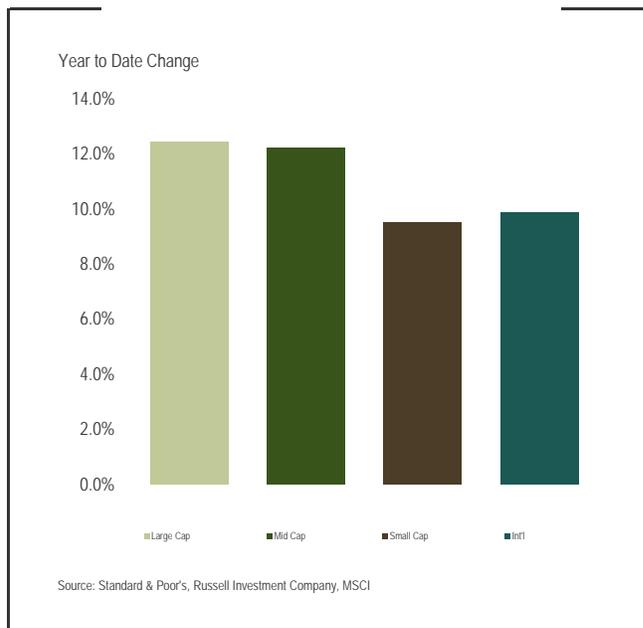
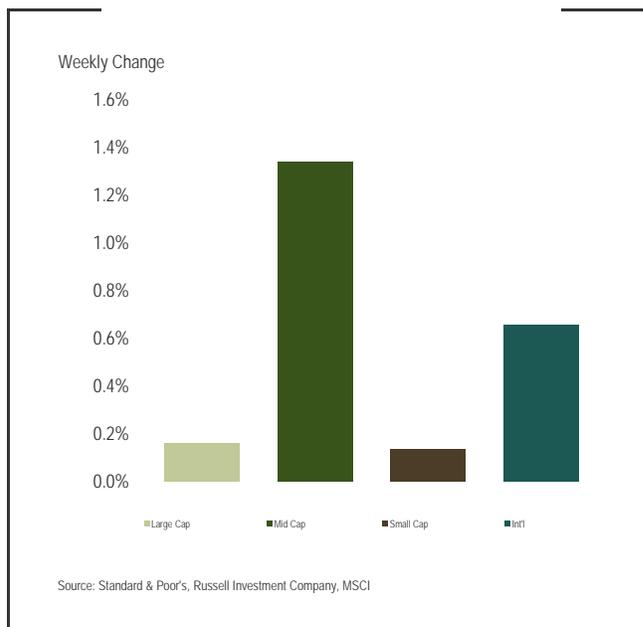
Stock Market Update

The equity markets stumbled through a shortened trading week largely unchanged as investors maintained neutral positions despite a natural disaster mixed in with positive economic news for the U.S. The Dow Jones Industrial Average closed at 13,093.16, down -14.05 points for the week, or down 0.11%. The broader S&P 500 Index ended the week up 0.16% to close at 1,414.20, while the NASDAQ Composite finished lower by -5.82 points, or down 0.19% to close the week out at 2,982.13.

The week began with the longest weather related shutdown of the equity markets in over a century as Hurricane Sandy caused flooding and power loss across Manhattan, the home of the New York Stock Exchange. Trading resumed Wednesday with many Wall Street institutions running on backup power generators which may have contributed to a muted trading session with stock indices ending the day largely flat.

Trading remained subdued through the week's end as a bounce on Thursday was largely negated by a dip in equity prices on Friday despite positive economic data coming in both days. Investors appear to be taking a defensive posture ahead of the Presidential elections when further clarity may be available regarding fiscal cliff issues.

With Hurricane Sandy's devastating effects being felt all along the eastern seaboard, building supply retailers drew strong bids from investors after the markets opened. Home Depot (HD) and Lowe's (LOW) appear poised to capitalize on emergency repairs and longer term reconstruction in the region and finished the week up 3.3% and 5.7%, respectively.



Issue	10.26.12	11.2.12	Change
Dow Jones	13,107.21	13,093.16	-0.11%
S&P 500	1,411.94	1,414.20	0.16%
NASDAQ	2,987.95	2,982.13	-0.19%
Russell 1000 Growth	650.23	651.97	0.27%
S&P MidCap 400	974.74	987.8	1.34%
Russell 2000	813.25	814.36	0.14%
MSCI EAFE	1,521.02	1,530.98	0.65%
MSCI Small Cap	999.12	999.63	0.54%

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

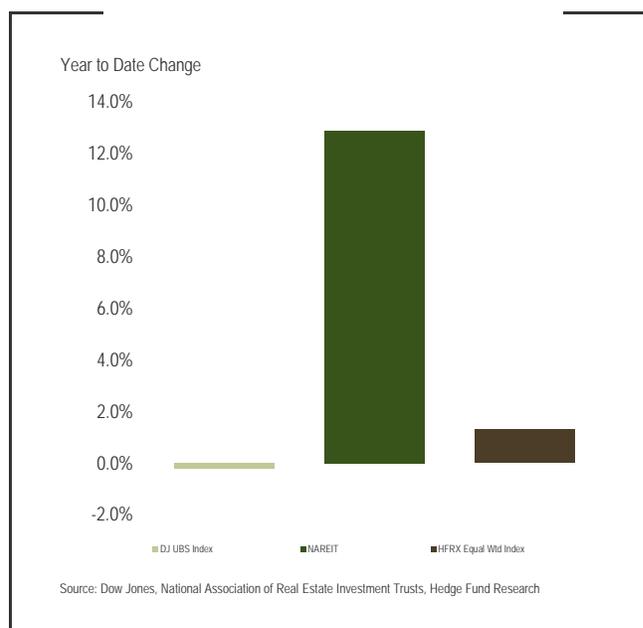
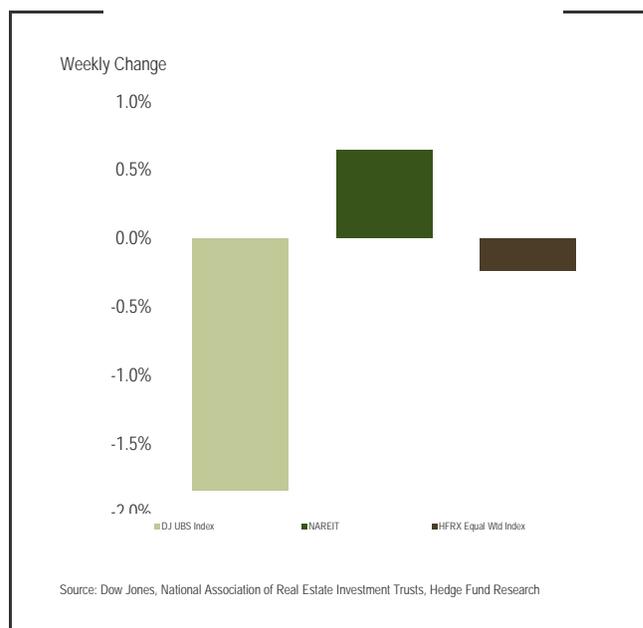
Gold fell nearly 2% on Friday, breaking below \$1,690 an ounce for the first time in two months as an encouraging U.S. nonfarm payrolls report lowered expectations for economic stimulus provided by global central banks. The precious metal slipped 1.94% this week, settling at \$1,678.30 an ounce, its fourth consecutive weekly decline. The metal has now erased all previous gains after the U.S. Federal Reserve announced its lasted bond-buybacks to boost the job market in September. Many analysts claim that with the uncertainty of the presidential election looming, gold needed a poor employment number, something "sour" enough to cause the U.S. Federal Reserve to inject further monetary easing.

Expectations that demand for crude oil would likely be subdued in the aftermath of Hurricane Sandy earlier this week caused oil prices to slip on Friday. Oil closed this week at its lowest point in almost four months as two Northeast refineries remained shut down after Hurricane Sandy. With production of gasoline and diesel reduced, and demand dropping off in the storm-stricken region, there is a likelihood the nation's already ample supplies will grow. Crude dropped 1.36% this week, closing at \$84.91 a barrel.

While Hurricane Sandy's affects may have been felt across much of the Northeast, the storm had little impact on U.S. real estate investment trusts (REITs) and the market at large, according to NAREIT. Brad Case, NAREIT's senior vice president of research and industry information, stated October was a "soft month" for the REIT market in general amongst investors. Case attributed this to continued uncertainty about the outcome of the election. However, there was not much of a dip for REIT investors as the broader stock market lost nearly 2% and REIT investors lost only one-third of a percent. A large impact on the month's results can be attributed to an increase in uncertainty about what is going to happen on Election Day, both in respect to the White House and with respect to the Senate and other races. Case went on to note that uncertainty surrounding the election coupled with the housing recovery has also affected the lodging and multifamily sectors, which have witnessed lower gains despite having some of the strongest fundamentals among REITs.

Issue	Previous Week	Current ¹	Change
Gold	1,711.50	1,678.30	-1.94%
Crude Oil Futures	86.08	84.91	-1.36%
Copper	355.65	348.25	-2.08%
Sugar	19.35	19.45	0.52%
HFRX Equal Wtd. Strat. Index	1,114.39	1,111.73	-0.24%
HFRX Equity Hedge Index	1,037.33	1,038.92	0.15%
HFRX Equity Market Neutral	924.36	930.13	0.62%
HFRX Event Driven	1,363.09	1,359.60	-0.26%
HFRX Merger Arbitrage	1,485.74	1,483.27	-0.17%
Dow Jones UBS Commodity Index	143.00	140.37	-1.84%
FTSE/NAREIT All REIT	155.04	156.04	0.64%

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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