MainStreet Advisors
Financial Market Update

November 9, 2012
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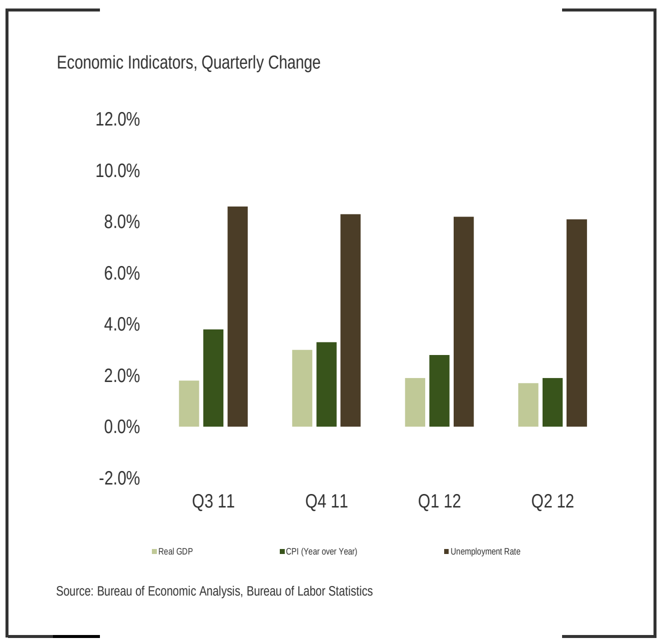
Economic Update

The election results are in, America! And for the $5.8 billion spent on campaigns this election cycle (a more than 50% increase in spending over the 2008 election), the result was… no change. The President is still a Democrat; the House is still controlled by the Republicans; and the Democrats still control the Senate. The divided congress will have only 13 days in a lame duck session to try to come to agreement on a plan to avoid the so-called "fiscal cliff."

Political change is happening on the other side of the globe, however, as China's ruling Communist party began a week-long congress to appoint a new group of leaders. Xi Jinping, a chemical engineer and the son of one of the founders of the Communist guerrilla movement, is likely to replace Hu Jintao as China's president. The current president issued a warning to the party saying "Combating corruption and promoting political integrity is a major political issue. If we fail to handle it, it could prove fatal to the party and even cause the collapse of the party and the fall of the state."

Gloomy comments from European Central Bank president Mario Draghi put downward pressure on markets this week. "Unemployment is deplorably high," the ECB president said. "Overall economic activity is weak and it is expected to remain weak in the near term. And the growth of money and credit are subdued." The European Commission put a further damper on things when they released a report forecasting a 0.3% contraction in economic output for the EU for the year, and a 0.4% decline for the 17-nation eurozone.

Despite the uncertainty with the looming fiscal cliff, consumer sentiment is strong and continues to improve rising 2.3 points to 84.9 in November – a new recovery high. With home prices climbing consumers are getting more comfortable about spending. And while government austerity will continue to put a damper on the economy, as it has since 2010, it is the consumer that drives the majority of growth.



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

Nov. 5th	ISM Non-Mfg. Index, October	54.2
Nov. 6th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-0.2%
Nov. 7th	MBA Purchase Applications Index, Wkly. Chg.	-5.0%
Nov. 7th	EIA Petroleum Status Report, Wkly. Chg.	1.8M Barrels
Nov. 7th	Consumer Credit, September Monthly Change	11.4B
Nov. 8th	International Trade Balance Level, September	-41.5B
Nov. 8th	Initial Jobless Claims (week ending 11/3)	355,000
Nov. 8th	EIA Natural Gas Report, Wkly. Chg.	21 bcf
Nov. 9th	Import Prices, Oct. Monthly Chg.	0.5%
Nov. 9th	Export Prices, Oct. Monthly Chg.	0.0%
Nov. 9th	Consumer Sentiment Index, November	84.9
Nov. 9th	Wholesale Inventories, Sep. Monthly Chg.	1.1%

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.

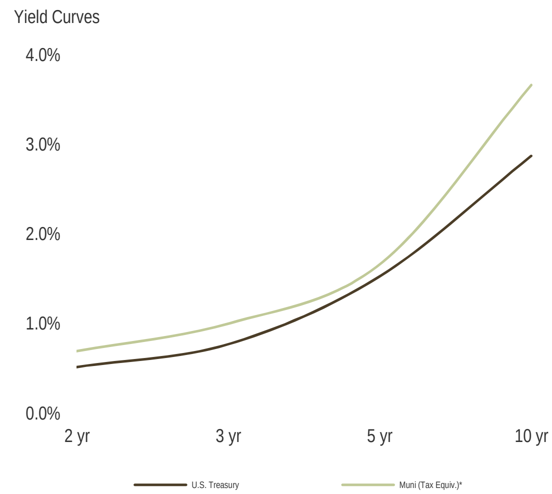
Bond Market Update

Bolstered by President Obama's re-election and renewed concerns over the fiscal cliff, U.S. Treasuries rose for the week with 10-year yields dropping to their lowest levels in two months. In a sign that Treasuries have climbed to extreme valuation levels, the "term-premium" -- a pricing model created by the Federal Reserve that includes expectations for interest rates, growth and inflation -- closed at -0.94%, 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. Nevertheless, given the outcome of the election, many bond strategists feel yields can fall further. Although Republican House Speaker John Boehner said he is ready to negotiate to avoid the fiscal cliff, the bargaining process is expected to be more contentious with Mr. Obama in the White House, which could create increased market volatility and spark a flight-to-safety trade.

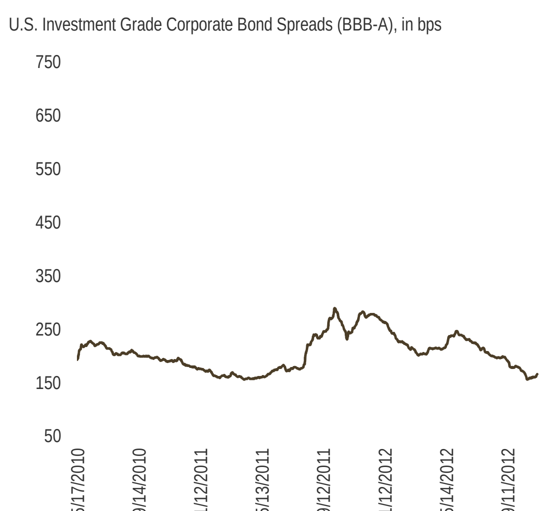
Meanwhile, many economists expect the Federal Reserve to transition to the outright purchase of U.S. government debt after the "Operation Twist" program ends in December. Under this program, the Fed has been selling short-term and buying long-term Treasuries in an effort to lower longer-term rates to spur spending. However, by the end of the year, the central bank will be close to running out of short-term securities to sell. Rather than just allowing the program to expire, market participants expect the Fed to begin outright Treasury security purchases, in a continuation of its accommodative monetary policy position.

Issue	11.2.12	11.9.12	Change
3 month T-Bill	0.09%	0.09%	0.00%
2-Year Treasury	0.28%	0.27%	-0.01%
5-Year Treasury	0.73%	0.65%	-0.08%
10-Year Treasury	1.75%	1.61%	-0.14%
30-Year Treasury	2.91%	2.75%	-0.16%

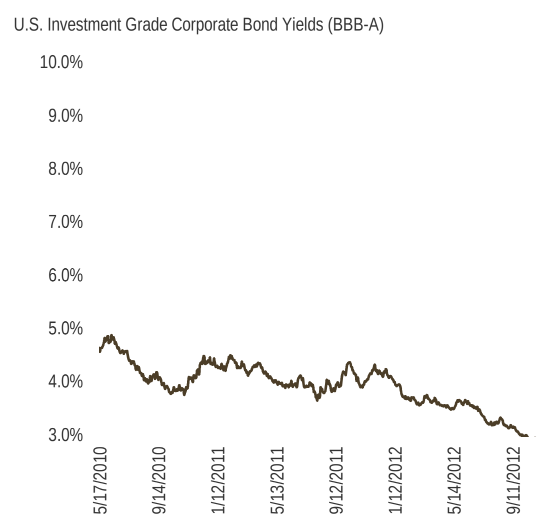
Source: Bloomberg, FTN Financial, The Wall Street Journal, U.S. Department of Treasury.



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



Source: Merrill Lynch



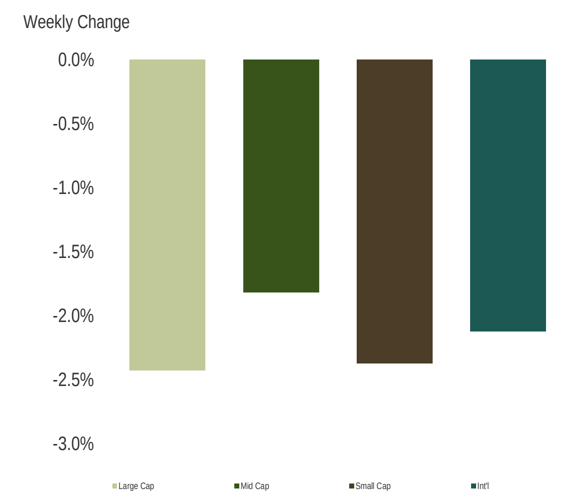
Source: Merrill Lynch

Stock Market Update

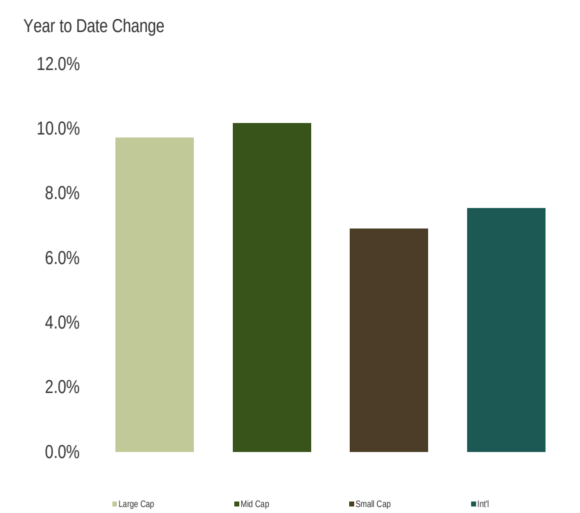
The equity markets sold off after the election as the focus now shifts from the presidential election to the looming fiscal cliff. All three indices finished lower by over 2%, and on Wednesday the markets had their largest one-day sell off over the trailing 12-month period. The Dow Jones Industrial Average closed at 12,815.39, down 278 points for the week, or down 2.12%. The broader S&P 500 Index ended the week down 2.43% to close at 1,379.85, while the NASDAQ Composite finished lower by 77 points, or down 2.59% to close the week out at 2,904.87.

The domestic equity market tried to erase the losses from Wednesday and Thursday when the preliminary data from University of Michigan showed that consumer sentiment had risen above expectations and sits at its highest level in five years. The markets quickly lost traction as President Obama approached the public for the first time since winning the election to discuss the $607 Billion take hike should lawmakers not compromise on getting a deal done. The president mentioned the need for job growth, high taxes on the wealthy, and the need for lawmakers to come together and make a deal happen.

Earnings continue to disappoint, with one of the latest coming from Groupon (GRPN). Groupon's shares which reached a high close of $30 per share a year ago now see their shares down over 25% today on both poor revenue and the outlook for the company. Deal flow is a critical element to their business, and their customer base grew by 45% from the prior year; however, the amount of deals actually purchased only rose by 9%. Shares of GRPN finished the session at $2.76 per share.



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



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

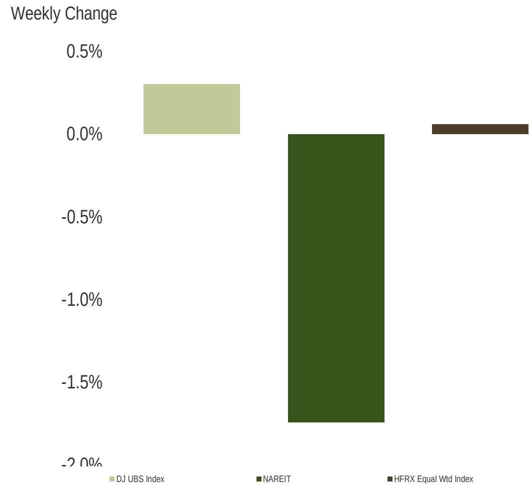
Issue	11.2.12	11.9.12	Change
Dow Jones	13,093.16	12,815.39	-2.12%
S&P 500	1,414.20	1,379.85	-2.43%
NASDAQ	2,982.13	2,904.87	-2.59%
Russell 1000 Growth	651.97	638.50	-2.07%
S&P MidCap 400	987.8	969.82	-1.82%
Russell 2000	814.36	795.02	-2.37%
MSCI EAFE	1,530.98	1,498.43	-2.13%
MSCI Small Cap	999.63	995.31	-2.24%

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.

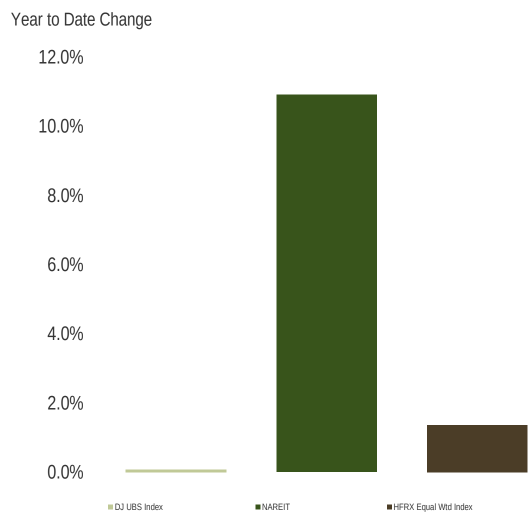
Alternative Investments Market Update

Gold futures ended higher for a second straight day Friday, as investors sought the safe-haven status of the precious metal on concerns over the looming fiscal cliff and the impact it would have on the U.S. economy. Prices were also supported by expectations of strong demand out of India as a major festival there draws closer on top of expectations of increased demand from China. The precious metal gained 3.16% this week as many investors began shifting their attention from the election towards the impending “fiscal cliff,” a combination of government spending cuts and tax increases due to be implemented under existing law early next year. Because of the belief that such an event could send the economy back into a recession, gold has been serving as a hedge against economic uncertainty. The precious metal also posted gains earlier in the week after the European Central Bank kept its monetary policy intact, reaffirming an aggressive bond-buying program.

Crude oil also had a bounce back week, gaining 1.38%, to settle at $86.08 per barrel, on encouraging macroeconomic data out of China, which showed industrial production improving more than expected, as well as U.S. consumer sentiment rising to a more than five-year high. Also announced this week, demand for the Organization of Petroleum Exporting Countries (OPEC) crude will decline until 2016 because of the weakening economic outlook and growing reliance on competing sources, such as natural gas. Global need for fuel from OPEC is expected to shrink to 29.7 million barrels a day in 2016, 1.4 million less than this year, OPEC stated this week in its annual World Oil Outlook. The estimate for 2015 is 1.6 million barrels lower than that forest in last year’s report. OPEC predicts it may have more than 5 million barrels of daily spare production capacity as early as next year.



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	1,678.30	1,731.35	3.16%
Crude Oil Futures	84.91	86.08	1.38%
Copper	348.25	344.50	-1.08%
Sugar	19.45	19.06	-2.01%
HFRX Equal Wtd. Strat. Index	1,111.73	1,112.40	0.06%
HFRX Equity Hedge Index	1,038.92	1,037.83	-0.10%
HFRX Equity Market Neutral	930.13	927.63	-0.27%
HFRX Event Driven	1,359.60	1,357.50	-0.15%
HFRX Merger Arbitrage	1,483.27	1,481.74	-0.10%
Dow Jones UBS Commodity Index	140.37	140.79	0.30%
FTSE/NAREIT All REIT	156.04	153.32	-1.74%

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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