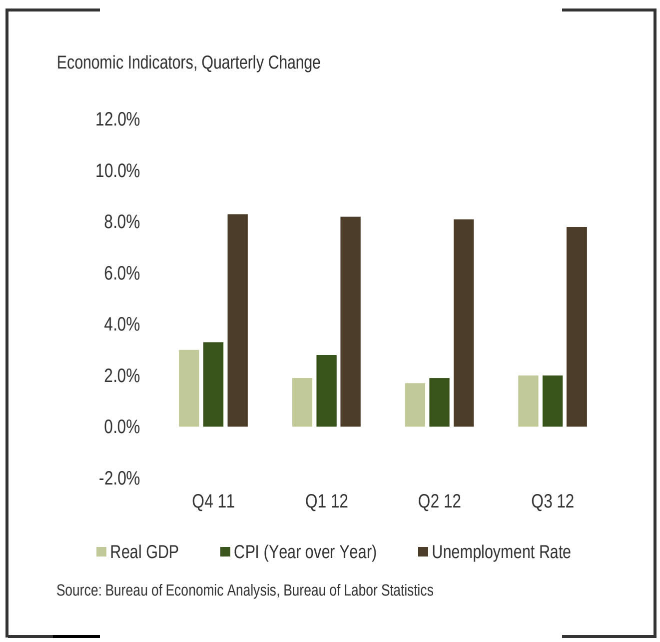
MainStreet Advisors
Financial Market Update

December 7, 2012

Economic Update

Temporary distortions caused by Superstorm Sandy seem to be working their way out of employment data. Weekly initial jobless claims had surged to as high as 451,000 in the wake of the devastating storm, but have settled back down to 370,000 for the week ended December 1 – a number on par with data seen in the weeks leading up to the storm. The effects of Sandy will linger a while longer in the four-week average which rose to 408,000 and is now 36,000 above the month-ago figure. Despite the surge in unemployment claims during the month the November employment numbers came in much better than expected thanks to the strongest month of retail hiring on record since 1939. Economists had expected only 80,000 jobs to be added during the month, but the reported number from the establishment survey was a much higher 146,000. Much of that came from the 52,600 retail jobs added as stores hired more people to help with the holiday shopping season. The household survey showed the unemployment rate fell two-tenths of a percentage point to 7.7%, but it was a result of more people leaving the workforce than jobs lost – not exactly the way we would like to see this number improve. Overall we believe the report was good, just not as good as the headline numbers would indicate.

The ISM manufacturing data showed a slight contraction in November following two months of expansion. The purchasing managers index fell to 49.5 from 51.7 the previous month. The new orders component continued to grow, but weakness was seen in employment and inventories indicating businesses are more cautious about future demand. Comments from respondents were leaning more to the negative side with regards to economic conditions and many noted concerns over a lack of clarity with government tax and budgetary policies holding them back from any expansion plans. The much larger service side of the economy continued to show healthy growth at an accelerated pace, with the non-manufacturing index rising to 54.7 for the month. New orders were very strong at 58.1, but employers do not appear to be adding much staff to meet the increased demand. The gain in activity and orders is good news, but until the fiscal cliff issues are addressed it appears businesses will be treading carefully.

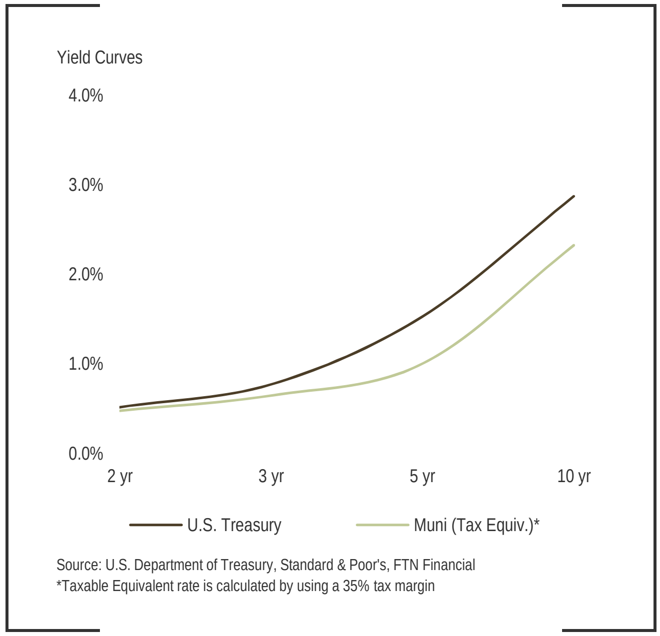


Dec. 3rd	ISM Mfg. Index - Level, November	49.5
Dec. 3rd	Construction Spending, Oct. Monthly Chg.	1.4%
Dec. 4th	ICSC-Goldman Same Store Sales, Wkly. Chg.	-3.1%
Dec. 5th	MBA Purchase Applications Index, Wkly. Chg.	4.5%
Dec. 5th	Factory Orders, Oct. Monthly Chg.	0.8%
Dec. 5th	ISM Non-Mfg. Index, November	54.7
Dec. 5th	EIA Petroleum Status Report, Wkly. Chg.	-2.4M Barrels
Dec. 6th	Initial Jobless Claims (week ending 12/1)	370,000
Dec. 6th	EIA Natural Gas Report, Wkly. Chg.	-73 bcf
Dec. 7th	Non-farm Payrolls, Nov. Monthly Chg.	146,000
Dec. 7th	Unemployment Rate, November	7.7%
Dec. 7th	Consumer Sentiment Index, December	74.5
Dec. 7th	Consumer Credit, October Monthly Change	14.2B

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

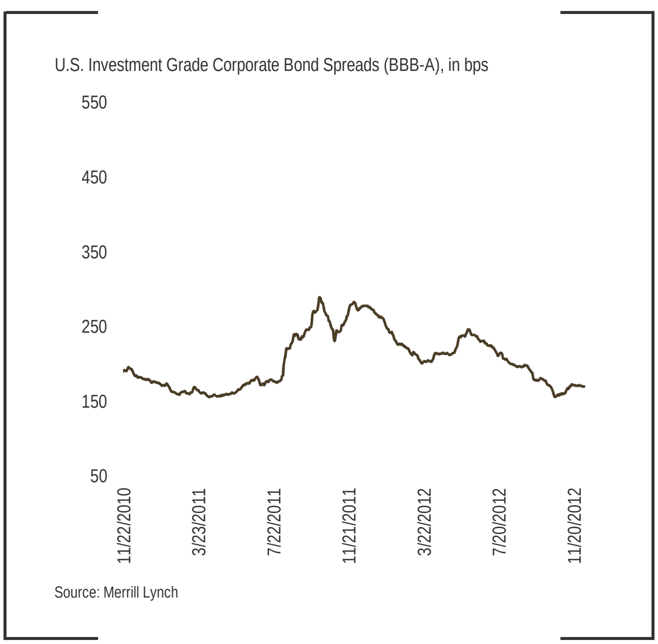
Prolonged fiscal cliff uncertainty and the expectation of further accommodation from the Federal Reserve kept U.S. Treasuries in a narrow trading range for most of the week. In a sign market participants remain on the sidelines until a clear deal emerges regarding tax and spending cuts, bond market volatility as measured by Merrill Lynch's MOVE index dropped to its lowest level in five years. Separately, from a valuation perspective, Treasuries remain very expensive relative to historical levels. The Federal Reserve's "term premium" model indicates yields on government debt are roughly 0.94% lower than what is considered fair value. The average over the past decade has been a 0.50% premium. Alongside this, yields on Treasuries with maturities out to approximately 2022 remain below the rate of inflation, which suggests U.S. Government debt offers investors an extremely low expected return/high risk opportunity at this time. Meanwhile, concerns in the high yield market are starting to mount as investors, desperate for yield, continue to pour into junk-bond mutual funds and ETFs, with sales easily surpassing record levels. At the same time, borrowing rates have never been lower as companies can now borrow at rates somewhere in the area of 6.6%, many times lower than average level over the past 20 years of 9.2%. The combination of low rates and a boundless appetite for high yield bonds has eroded lending standards as companies with very poor credit ratings now borrowing on easier terms for questionable purposes.



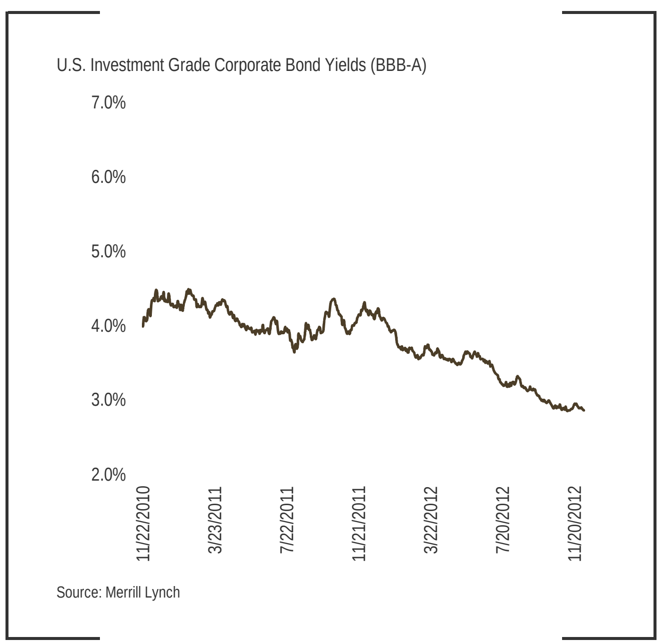
Source: U.S. Department of Treasury, Standard & Poor's, FTN Financial
*Taxable Equivalent rate is calculated by using a 35% tax margin

Issue	11.30.12	12.7.12	Change
3 month T-Bill	0.10%	0.10%	0.00%
2-Year Treasury	0.27%	0.27%	0.00%
5-Year Treasury	0.69%	0.69%	0.00%
10-Year Treasury	1.69%	1.69%	0.00%
30-Year Treasury	2.83%	2.83%	0.00%

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



Source: Merrill Lynch



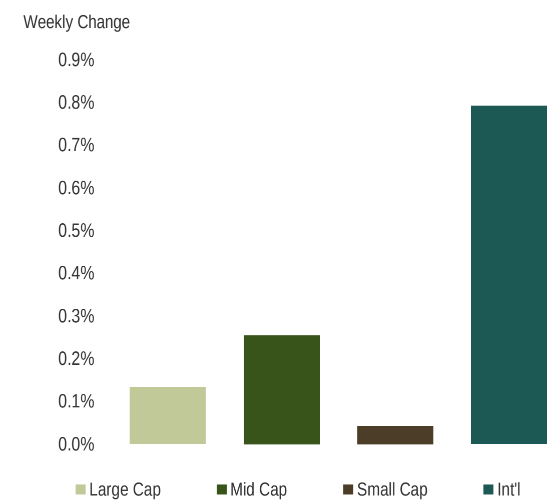
Source: Merrill Lynch

Stock Market Update

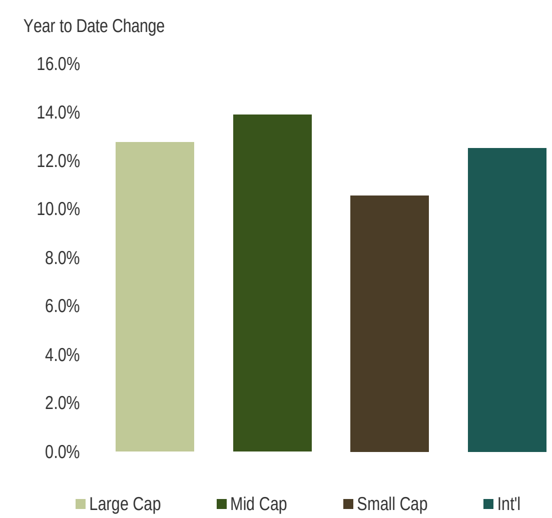
Volatility continued in most major markets with investors selling stocks early in the week on weak U.S ISM data and fiscal cliff concerns. Friday's unexpectedly strong payroll number pushed markets higher early in the day but negative consumer sentiment data led to mixed performance for stock indices for the first week of December. The Dow Jones Industrial Average closed Friday at 13155.13, up 0.1% for the week. The S&P 500 Index finished at 1418.07, essentially flat over the five-day trading period. The NASDAQ Composite Index fell 0.1 % to close at 2978.04. Apple weighed heavily on the NASDAQ this week, down nearly 8% on concerns about competitive inroads in the tablet market.

European markets were slightly more positive this week. Germany's DAX 30 Index reached its highest level in almost five years after the government reported factory orders grew 3.9% in October, reversing a 2.4% decline in September, well ahead of the 1% growth forecast. European stocks as measured by the Stoxx Europe 600 Index increased 1.1% for the five-day trading period. Asian stocks were also positive with the Nikkei continuing to rally, reaching a 7-month high. In China, the Shanghai Composite Index rallied back from a four year low, up 4.1% over last Friday's close.

Mergers and acquisitions of note this week included Baxter's $2.8 purchase of Swedish medical manufacturer Gambro, its largest acquisition to date. Freeport McMoran announced its intention to acquire both Plains Exploration and McMoran Exploration for nearly $20 billion. Freeport's shares sank 16% on the day of the announcement, and another 4.2% the following day, hitting 15-month lows. Six analysts downgraded the stock, questioning the company's strategy of diversifying into the oil and gas business, the acquisition price and the fact that shareholders will not get a chance to vote on the deal.



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



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

Issue	11.30.12	12.7.12	Change
Dow Jones	13,025.58	13,155.13	0.99%
S&P 500	1,416.18	1,418.07	0.13%
NASDAQ	3,010.24	2,978.04	-1.07%
Russell 1000 Growth	659.44	655.53	-0.59%
S&P MidCap 400	1000.15	1002.7	0.25%
Russell 2000	821.92	822.27	0.04%
MSCI EAFE	1,555.73	1,568.05	0.79%
MSCI Small Cap	1,003.79	1,021.26	1.03%

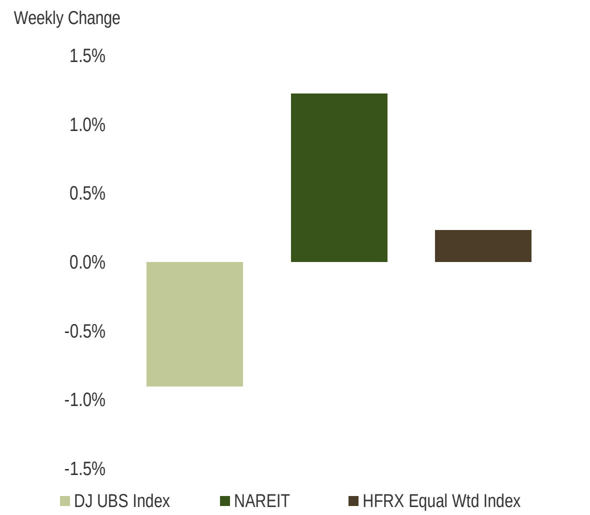
Prices reflect most recent data available at the time of publication
Source: Bloomberg, Russell Investment Company, Standard & Poor's, Morgan Stanley Capital International, The Wall Street Journal, MarketWatch, Wolfe Trahan.

Alternative Investments Market Update

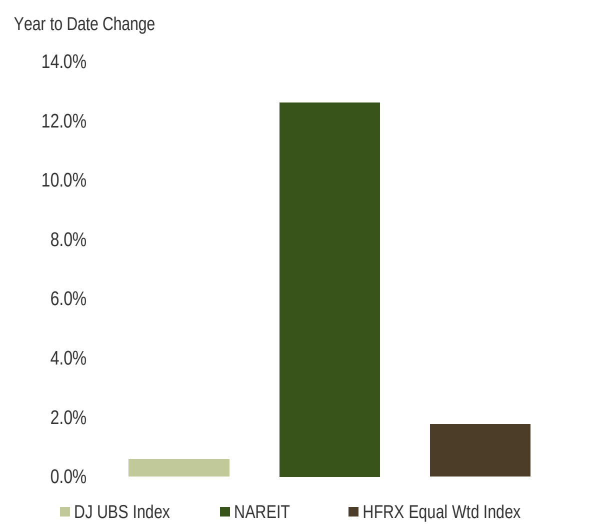
Gold rose on Friday, rebounding from early lows, as upbeat U.S. nonfarm payrolls data did not alter the expectation that the Federal Reserve would continue to use bullion-friendly economic stimulus to boost growth. For the week though, the precious metal was down 0.68% for a second consecutive weekly loss, settling at $1,703.45 an ounce. Gold fell to a one-month low earlier in the session as safe-haven buying declined after data showed U.S. employers hired more workers than expected in November and job growth remained on a steady but slow path. However, gold buying emerged as the market later focused on downward revisions to the job figures in September and October. According to Reuters, a sharp decline in consumer confidence in early December and short-covering by funds also lifted gold prices. Analysts did note the encouraging jobs report was not enough to dash hopes of more Fed quantitative easing to ease worries about the fiscal cliff, referring to tax hikes and spending cuts set to kick in early next year.

Crude oil extended losses for a fourth straight day to end below $86 a barrel Friday on continued demand concerns over some mixed macroeconomic data. Oil prices fluctuated on positive jobs data and weak consumer sentiments out of the U.S., even as the dollar strengthened against some major currencies and the euro dropped. Investors continued to chew over an official oil report earlier in the week though, which showed a more-than-expected increase in gasoline inventories, fueling concerns of demand growth. For the week, oil lost 3.19%, or $2.83, to settle at $86.02 a barrel.

Hedge funds posted gains last month as equities traded in a wide intra-month range following the U.S. Presidential election and continued focus on the U.S. fiscal cliff. The HFRI Fund Weighted Composite Index gained 0.35% in November posting its fifth gain in the last six months, according to data released this week by Hedge Fund Research. Relative Value Arbitrage and Event Driven strategies were the top contributors last month, with both the HFRI Relative Value Arbitrage Index and HFRI Event Driven Index gaining 0.7%.



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	1,715.17	1,703.45	-0.68%
Crude Oil Futures	88.85	86.02	-3.19%
Copper	364.45	366.50	0.56%
Sugar	19.34	19.21	-0.67%
HFRX Equal Wtd. Strat. Index	1,114.16	1,116.74	0.23%
HFRX Equity Hedge Index	1,042.08	1,044.66	0.25%
HFRX Equity Market Neutral	933.78	933.63	-0.02%
HFRX Event Driven	1,361.08	1,362.91	0.13%
HFRX Merger Arbitrage	1,490.80	1,491.66	0.06%
Dow Jones UBS Commodity Index	142.80	141.51	-0.90%
FTSE/NAREIT All REIT	153.81	155.69	1.22%

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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