MainStreet Advisors
Financial Market Update

December 21, 2012

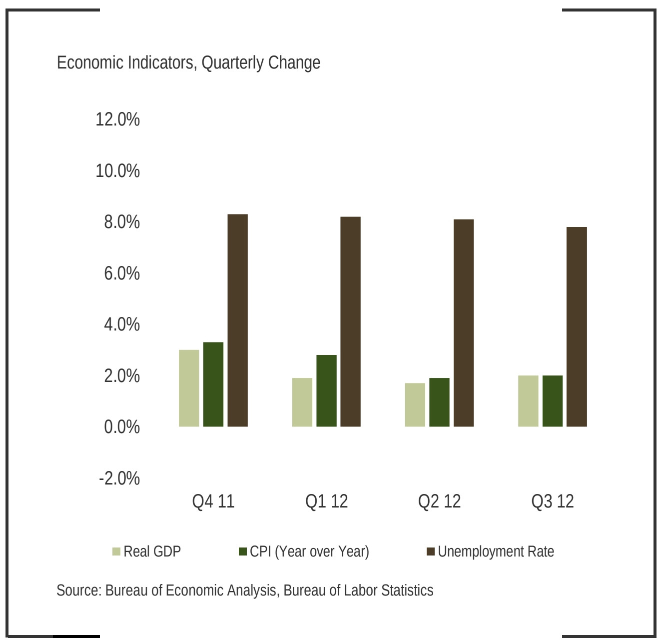
Economic Update

Progress on the fiscal cliff stalled in Congress as House Speaker John Boehner scrapped the so-called "Plan B" that would allow higher tax rates on annual income above $1 million, yielding to resistance within his own party. Lawmakers will still have a chance to cut a deal when they return from the Christmas holiday on December 27, but their failure to resolve the issue is having a negative impact on markets. A 10-point decline in consumer sentiment this month to 72.9 is also being blamed on the fiscal cliff mess.

Third quarter GDP received another upgrade in its third and final estimate. Real GDP growth was revised up to 3.1%, compared to 2.7% in the second estimate and 2.0% in the initial estimate. The upward revision was primarily due to higher estimates for personal consumption, nonresidential fixed investment, exports, and government purchases.

The housing recovery shows no signs of slowing down as existing home sales surged 5.9% in November to an annual pace of 5.04 million. That rate is 14.5% higher than the 4.40 million pace seen one year ago. The percentage of sales attributed to distressed properties including foreclosures and short sales fell to 22% helping to boost the median home price 2.1% to $180,600. Inventory fell to a 4.8-month supply – the lowest level in over seven years – indicating a scarcity of housing stock. These conditions have helped boost home builder sentiment for eight straight months and the NAHB index now stands at 47. Housing starts did slow 3.0% in November following strong gains the previous two months, but permits were up 3.8% indicating builder optimism. The bottom line is the housing market recovery is still on track and is increasingly becoming an economic growth leader.
New factory orders were up 0.7% in November after climbing 1.1% the previous month. Stripping out the often volatile transportation component the durable goods orders data is beginning to show some broad-based upward momentum with orders increasing 1.6% following a 1.9% boost in October. It is a modest improvement, but still a good sign for manufacturing

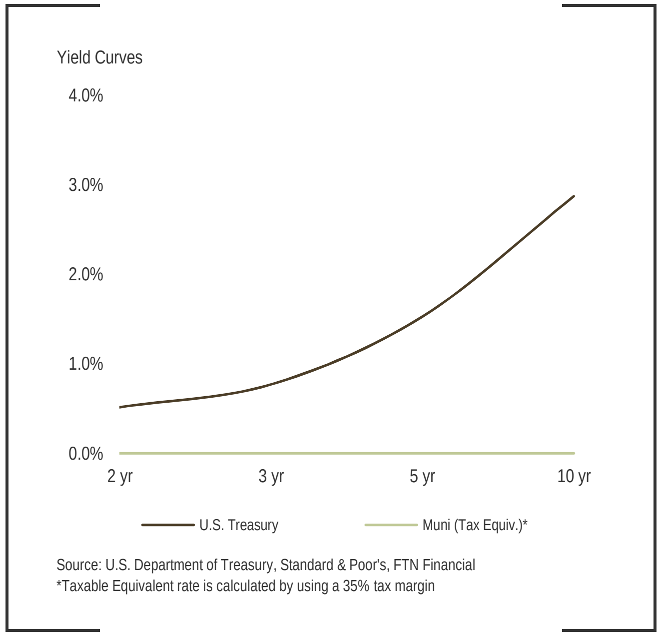
Source: Bureau of Economic Analysis, U.S. Department of Commerce, Federal Reserve Banks, U.S. Department of Labor, U.S. Department of Commerce, The Conference Board, the National Association of Realtors, the National Association of Home Builders, the European Central Bank.



Dec. 17th	Empire State Mfg Survey, December	-8.1
Dec. 18th	ICSC-Goldman Same Store Sales, Wkly. Chg.	4.3%
Dec. 18th	Housing Market Index, December	47.0
Dec. 19th	MBA Purchase Applications Index, Wkly. Chg.	-12.3%
Dec. 19th	Housing Starts, November	861,000
Dec. 20th	Real GDP, Q3f Quarterly Change SAAR	3.1%
Dec. 20th	GDP Price Index, Q3f Quarterly Change SAAR	2.7%
Dec. 20th	Existing Home Sales, November SAAR	5.04M
Dec. 20th	Philidelphia Fed Survey, December	8.1
Dec. 20th	Leading Indicators, Nov. Monthly Chg.	-0.2%
Dec. 21st	Durable Goods New Orders, Nov. Monthly Chg.	0.7%
Dec. 21st	Personal Income, November Monthly Chg.	0.6%
Dec. 21st	Core PCE Price Index, November Monthly Chg.	0.0%
Dec. 21st	Consumer Spending, November Monthly Chg.	0.4%
Dec. 21st	Consumer Sentiment Index, December	72.9

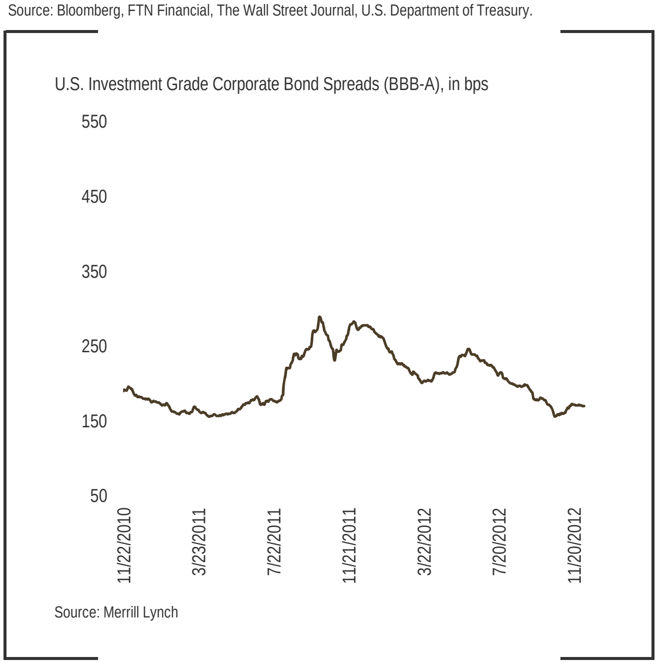
Bond Market Update

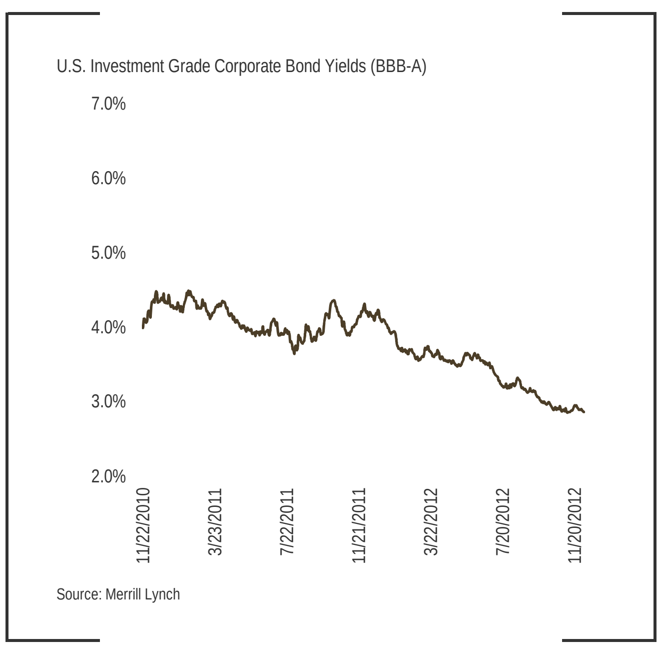
After rallying earlier in the week, U.S. Treasuries finished mostly unchanged after House Republican leaders scrapped a budget negotiations plan. Although several economic reports came in better than expected, market participants continue to focus solely on budget talks. However, as discouraging as the collapse of budget negotiation is, the move in Treasuries remains relatively muted with the yield on the 10-year note still near the high end trading range typical of the last two months. Meanwhile, after a six-month rally in municipal bonds, demand in this sector has faltered recently with returns on pace for the steepest monthly loss since December 2010 when banking analyst Meredith Whitney incorrectly predicted a significant increase in defaults. While current defaults remain near all-time lows, concerns have escalated that President Obama’s proposal to limit the income tax deduction on munis to 28% may come to fruition. George Friedlander, Citigroup’s chief municipal strategist, noted in a recent report, “The bottom line is that the muni market was clearly hurt by the perception that both sides might agree to this. The cap on the benefit is not a done deal, so the impact would probably increase if the retroactive cap actually becomes law.” However, in an effort to thwart this proposal, Municipal Bonds for America, a coalition of state and local governments and Wall Street groups, sent a report to congressional leaders outlining the negative consequences -- namely higher borrowing costs for municipalities -- of implementing such a cap.



Issue	12.14.12	12.21.12	Change
3 month T-Bill	0.06%	0.06%	0.00%
2-Year Treasury	0.27%	0.27%	0.00%
5-Year Treasury	0.70%	0.70%	0.00%
10-Year Treasury	1.74%	1.74%	0.00%
30-Year Treasury	2.90%	2.90%	0.00%

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



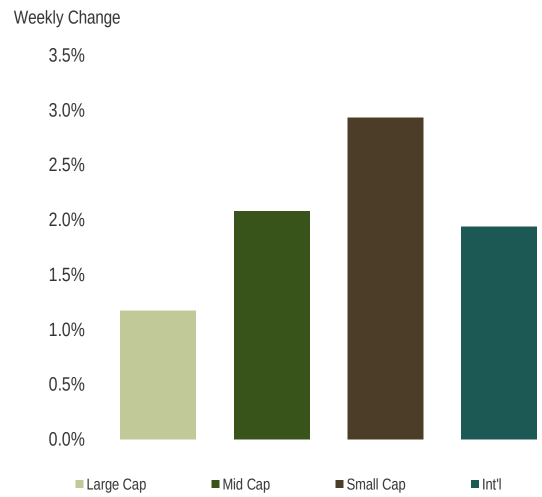


Stock Market Update

Most major domestic stock markets were slightly positive this week despite the sell off on Friday as the countdown to year end continues with no fiscal cliff resolution in sight. Friday's decline also followed the release of a decline in the University of Michigan Consumer Sentiment data from 82.7 in November to 72.9 in December – the lowest level since July. The Dow Jones Industrial Average closed Friday at 13190.84, up 0.4% for the week. The S&P 500 Index finished at 1430.15, higher by 1.2% over the five-day trading period. The NASDAQ Composite Index increased 1.7% since last Friday to close at 3021.01

European markets as measured by the Stoxx Europe 600 Index were flat for the second week in a row, Stocks in Greece rose 4.6% for the week after Standard & Poor's Ratings Services upgraded the country's credit rating on Tuesday from selective default to B minus, due to the completion of its distressed debt buyback. Asian stocks were mixed as Chinese investors stayed on the sidelines after a 4% rally last week. Japan's Nikkei index continued its 2012 rally with a 2.1% gain for the week. The Bank of Japan announced Thursday it would add about 10 trillion yen ($119 billion) to its asset-purchase program in hopes to revive growth by keeping borrowing costs down.

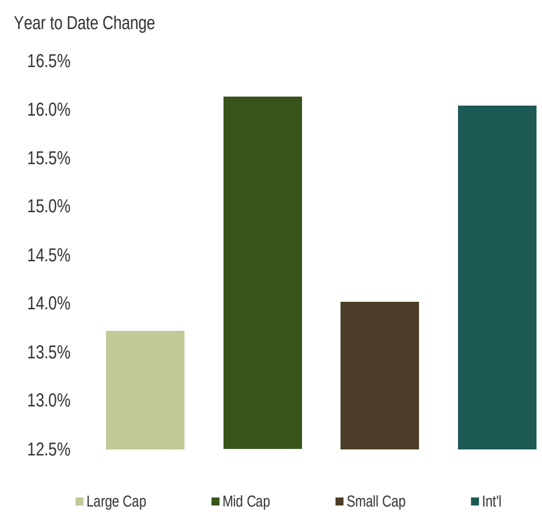
It was a busy week for corporate earnings, including reports from Discover Financial Services, Darden Restaurants, Oracle, Nike, Federal Express and Walgreen's. Oracle's operating income grew 12% on revenue growth of 3%, with particular strength in the software business. The company also announced it had added 3000 to its sales force in the last six quarters. While Discover's earnings were ahead of expectations, the company saw moderation in credit quality improvement leading to a 5% sell-off in the stock. Discover shares are still up 60% year-to-date.



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

Issue	12.14.12	12.21.12	Change
Dow Jones	13,135.01	13,190.84	0.43%
S&P 500	1,413.58	1,430.15	1.17%
NASDAQ	2,971.33	3,021.01	1.67%
Russell 1000 Growth	651.86	659.80	1.22%
S&P MidCap 400	1001.53	1022.36	2.08%
Russell 2000	823.75	847.88	2.93%
MSCI EAFE	1,586.21	1,616.95	1.94%
MSCI Small Cap	1,042.56	1,052.68	2.21%

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

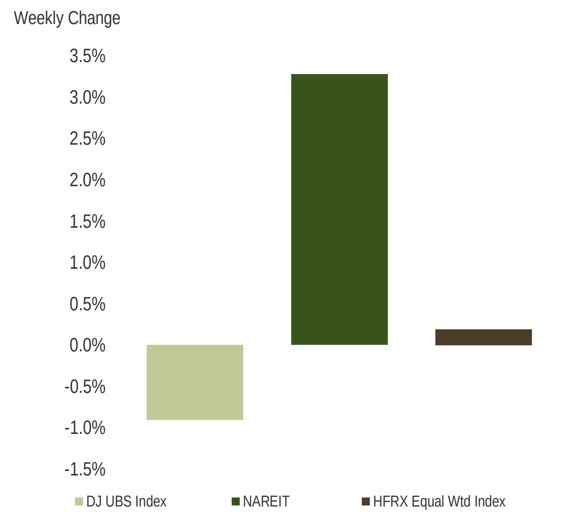
Gold and silver both fell for three straight days on positive economic news, including the upward GDP estimates, before rising on Friday after the fiscal cliff debate experienced a potential setback. So far this month gold has fallen over 3% and silver over 10%. This decline can likely be attributed to generally encouraging economic news in the U.S. and a shift into a risk-on situation, causing investors to exit the safe harbor gold investment and move back into more risky equities. The S&P 500 is up 2% in December, bumping the 1-year return to over 18%, demonstrating that investors have been increasing their stock market exposure and reducing precious metal investments.

West Texas Intermediate Crude was up for five straight days before plummeting on Friday with the fall in equity markets. WTI is now hovering around $90/barrel and Brent is under $110/barrel. Friday's $2 WTI price drop came as fiscal cliff worries intensified and as the countdown becomes imminent. The clear worry is that if the fiscal cliff is not resolved millions of Americans would have less expendable income and therefore would demand less oil. Oil prices will continue to fluctuate as the debate continues.

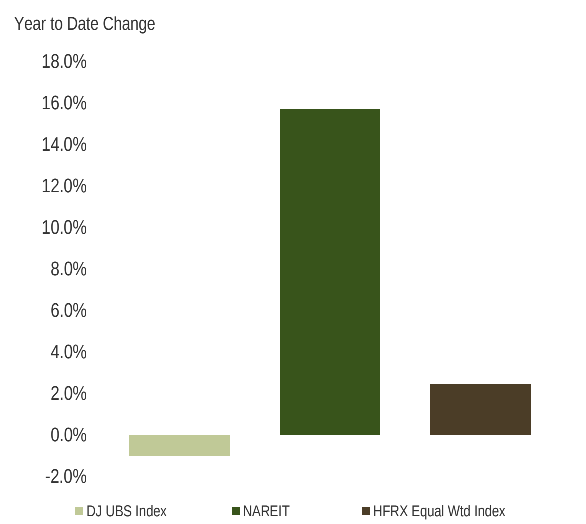
Positive homebuilding data has helped the real estate market this month; the FTSE NAREIT All Equity REIT index is up 3.5% so far in December and 20% year to date. Commercial real estate investors appear optimistic about 2013, notably in select sectors within the REIT market. The current market provides attractive spreads against fixed income assets, as well as equity-like returns with more stability. Monty Bennett, CEO of Ashford Hospitality Trust, claims that the lodging sector in particular has plenty of room to rally. Bennett noted "the industry suffered tremendously in the downturn. It's about halfway back to its prior peaks." Another area that looks promising to REIT insiders is the senior housing sector, a branch of healthcare REITs. Analysts claim that demand is growing and outpacing supply in medical real estate, and in particular senior housing. Finally, Colonial Properties Trust, a major player in the REIT market, announced that nearly 90% of its income in 2013 will come from the multi-family housing market, which it sees as an ideal place to be within the REIT universe.

Issue	Previous Week	Current[1]	Change
Gold	1,695.40	1,657.50	-2.24%
Crude Oil Futures	86.79	88.85	2.37%
Copper	367.35	356.60	-2.93%
Sugar	19.01	19.25	1.26%
HFRX Equal Wtd. Strat. Index	1,121.93	1,124.06	0.19%
HFRX Equity Hedge Index	1,048.15	1,050.84	0.26%
HFRX Equity Market Neutral	935.92	935.66	-0.03%
HFRX Event Driven	1,371.89	1,378.14	0.46%
HFRX Merger Arbitrage	1,505.48	1,506.86	0.09%
Dow Jones UBS Commodity Index	140.54	139.26	-0.91%
FTSE/NAREIT All REIT	154.90	159.97	3.27%

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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